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ACCOUNTING GUIDELINES FOR
MENTAL HEALTH CENTERS AND
RELATED FACILITIES

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METHODOLOGY REPORTS

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ACCOUNTING GUIDELINES FOR MENTAL HEALTH CENTERS AND RELATED FACILITIES

U.S. NATIONAL INSTITUTE OF MENTAL HEALTH

METHODOLOGY REPORTS

Prepared by
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in collaboration with the

Cost Systems Task Force
Western Conference on the Uses of Mental Health Data

Edited by
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PREFATORY NOTE

This Manual was originally published in May 1971 by the Western Conference on the Uses of Mental Health Data. Because this first printing was in limited numbers, this Manual has been reprinted by NIMH in order to provide distribution to a wider audience.

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TABLE OF CONTENTS

FOREWORD.....	iii
PREFACE.....	vii
PRINCIPLES OF ACCOUNTING.....	1
THE ACCOUNTING RECORDS AND REPORTS.....	15
BALANCE SHEET ACCOUNTS.....	20
REVENUE AND ADJUSTMENTS TO REVENUE.....	34
ACCOUNTING FOR THE EXPENSES OF A MENTAL HEALTH CENTER.....	46
CHART OF ACCOUNTS.....	56
ACCOUNTING RECORDS FOR A HAND POSTED SYSTEM.....	67
ACCOUNTING FOR A SMALL MENTAL HEALTH CENTER.....	82
OTHER ACCOUNTING AND MANAGEMENT PROBLEMS.....	94

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FOREWORD

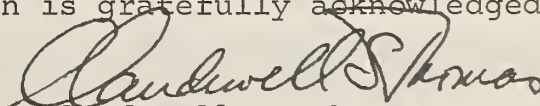
The Community Mental Health Center brings a variety of mental health services within easy reach of individuals who need service in a planned treatment program emphasizing comprehensiveness and continuity of care.

Basic to successful continuance of such centers are the establishment of management systems which consider cost efficiency and unit costs, the development of patient information systems and the use of sound management principles in the coordination of the personnel services and facilities comprising the center.

This is the third in a series of studies and publications sponsored by the Division of Mental Health Service Programs, NIMH, dealing with the internal management and fiscal services of mental health facilities. Financial Administration and Mental Health Services reviewed accounting and fiscal management procedures including the documentation of different accounting approaches used by five States in 1968. Cost Finding for Community Mental Health Centers, a selected annotated bibliography appeared in 1970. Both of these studies were done on contract with the Association of Mental Health Administrators.

This publication is designed to assist individual community mental health centers and other mental health facilities in the establishment of meaningful bookkeeping and accounting procedures for the multiplicity of services offered by these facilities. At the same time it is designed to be flexible enough for adoption by a small facility as well as one with multiple affiliates. The degree to which these goals have been met will vary from facility to facility and will not be known until some time has elapsed.

The recognition by the WICHE Cost Systems Task Force of the need for this basic manual and their interest and assistance in bringing it to completion is gratefully acknowledged.


Claudewell S. Thomas, M.D.

Director

Division of Mental Health Service Programs

PREFACE

This manual was developed to suggest the kinds of records, procedures, and charts of accounts for mental health centers and related facilities. By "related facilities" is meant mental health clinics or other mental health services who may not offer the "five essential services" of a federally-funded mental health center but who, nevertheless, have to accumulate and report financial transactions.

It is recognized that most established centers, particularly the larger ones, will have developed some form of an accounting system. They may have developed their own or had one imposed on them by the requirements of their funding sources and affiliations. In this case, it is hoped the manual will aid the center director in understanding the accounting records and procedures so he can better interpret and utilize financial reports sent to him. This manual may be most useful to those mental health facilities interested in revising their accounting system and to those facilities currently planning the development of a center. It is hoped the manual will be a guideline for the center's manager and accountant to use in deciding which records, procedures, and controls to institute in their facility. It should also be a guide to the bookkeeper in recording the daily transactions of the facility.

In order to utilize properly the bookkeeping and the accounting records and procedures put forth in this manual, it is highly recommended that all centers utilize the services of a qualified accountant to help set up and supervise the bookkeeping and accounting procedures.

In May 1969, a group of people interested in the administrative and cost aspects of mental health programs met in Denver, Colorado, under the sponsorship of the Western Conference on the Uses of Mental Health Data. Many of the participants had attended the workshop, "Financial Administration and Mental Health Services," held in Silver Springs, Maryland, in November 1968.¹ That workshop, sponsored by the Association of Mental Health Administrators and the National Institute of Mental Health, had called attention to the lack of adequate cost information in most mental health programs.

The purpose of the Denver meeting was to explore ways in which the Western Conference, or a subgroup of its participants, might develop a program to improve the understanding of costs in mental health, might develop a useful cost reporting system, and/or might develop cost-finding methods. During that meeting the group, des-

1. For additional information, see Financial Administration and Mental Health Services (Association of Mental Health Administrators, 1969, 1700 18 Street, N.W., Washington, D.C., 20009).

cribing itself as the Cost Systems Task Force, visited four mental health facilities in the Denver metropolitan area to gather some feeling about the current state of affairs regarding costs in a variety of programs. They met with the staff of two relatively small community mental health centers, a private psychiatric hospital about to initiate a center as part of its operations, and a state hospital.

The general findings were that while the state hospital and private psychiatric hospital had cost accounting systems, the two community centers did not have a cost system as such nor the in-house capability of developing one. While the centers recognized the need for cost information, they felt they had insufficient time or resources with which to develop a cost system. If these centers were representative of many other centers being developed around the country, it seemed apparent that a basic system capable of extracting required cost information was urgently needed.

At the same time, the task force was informed of a proposal being developed by the Association of Mental Health Administrators to explore and develop the "principles of cost-finding for community mental health centers." This project appeared to address itself to many of the problems identified by the task force, and they considered holding up any action of their own until the report of the Association of Mental Health Administrators was available. However, the vexing problem of an accounting system in many mental health centers and the relative lack of experience of centers' staffs with accounting concepts and methods remained.

The task force held two additional meetings to discuss this aspect of the problem and subsequently decided to develop guidelines for a bookkeeping system for mental health services. The objective was to produce a manual that would summarize accepted accounting principles and provide illustrations of their application to the mental health field. The target groups were those mental health professionals responsible for reporting cost data and those persons responsible for recording the financial transactions of a mental health facility. The basic premise of the task force was that personnel in many centers did not have the know-how to set up their bookkeeping records in such a way that the information gathered could provide a basis for an accounting system. In addition, the application of "cost finding principles" presumes the existence of adequate and accurate cost data in the organization being studied.

With this general goal in mind, the task force began to discuss and outline a bookkeeping manual. With the interest and financial assistance of the Mental Health Care Administration Branch NIMH (Contract No: 136 788), an accountant experienced in mental health was hired to draft and write the body of the manual. Members of the task force acted as a review committee as the drafts were produced. It is clear to all concerned that this manual was not the last word in what a mental health facility's cost system should be but rather a beginning to introduce some order into the existing chaos.

As much of a mental health facility's operation has descended from that of a hospital, it was judged that the personnel employed at the center would be somewhat familiar with hospital records and procedures. This manual has adopted the general recommendations for accounting records found in the American Hospital Association's Chart of Accounts because of their widespread use and acceptability in the accounting and health fields.

This manual is one of a developing series of publications designed to assist centers in their accounting system. It deals chiefly with the method of accumulating and organizing financial data so that they may be appropriately utilized.

Paul M. McCullough, Ph.D.
Director
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Uses of Mental Health Data

CHAPTER 1

PRINCIPLES OF ACCOUNTING²

Accounting may be described as the accumulation and communication of historical and projected quantitative data relating to the activities of an enterprise in conformity with generally accepted principles and as the interpretation of the results of those processes. Accumulation refers to the mechanical process of recording transactions. Communication refers to the reporting of such information to management and other users of financial and statistical data. Interpretation refers to the analysis of data for the purpose of providing guides for managerial decision-making.

In accounting literature, there is a lack of agreement on the precise definition of the term "principle." In this manual, the term "accounting principles" is used in the broadest sense to include all of the concepts, assumptions, conventions, and rules which serve as the theoretical basis of accounting procedures, valuations, and presentations.

The Accounting Entity

A fundamental accounting concept is that of the accounting entity or unit. For accounting purposes, the community mental health center itself is personified as an entity capable of buying, selling, and taking other economic actions which are to be accounted for and

2. Chapter 1 was drafted by T. H. Lewis, Fort Logan Mental Health Center. The content of the Chapter is drawn from the Chart of Accounts for Hospitals, American Hospital Association (1966, 840 North Lake Shore Drive, Chicago, Illinois 60611). A more complete presentation of these concepts will be found in that publication.

summarized in a fashion providing for the isolation of the affairs of the center from the private or personal affairs of those charged with its administration. The accountant thus regards the center as a being in its own right, separate and distinct from the parties who furnish the funds or sit on its governing board. The center itself is the primary unit for which the accounting records are maintained. Most units or affiliates of the center, however, usually assume sufficient importance to require the accountant to treat them as subordinate entities or units of accountability for planning and control purposes.

Continuity of Activity

Another basic accounting concept is that of continuity of activity or "the going concern." The assumption is that the accounting entity, the center, will continue to function indefinitely. It becomes necessary, then, to divide the life of the center into time segments, to determine revenues earned and expenses incurred during each segment, and to measure the amounts of assets and obligations at the end of each period. If immediate cessation of activity were the normal expectation, allocations of revenues and costs between the present and the future would be unnecessary.

Objective Evidence

Information produced by the accounting process should be based to the extent possible upon objectively determined facts. A record of a purchase, for example, should be supported by such documents as a copy of the purchase order (if used), the receiving report, the supplier's invoice, and the check issued in payment of the invoice.

Such documents serve as objective evidence of the transaction and permit a reliable determination of the cost of the asset, the amount of the liability, and the propriety of the resulting cash disbursement.

Retention of these documents for an appropriate period makes possible a verification of much of the data in accounting records.

The requirement of objective evidence, however, cannot always be met by financial data in accounting reports. It often is necessary to make estimates, and in these instances the judgment of the accountant and the program director must be exercised.

Consistency

Consistency refers to the practice of continued uniformity of procedures from one period to another. When this requirement is ignored, accounting data are not comparable, and the validity of the information is open to question. Consistency, however, does not require continued adherence to a method or procedure that is incorrect or no longer useful, nor does consistency preclude a justifiable and desirable change in accounting procedures.

Full Disclosure

The concept of full disclosure requires that all significant data be clearly and completely reflected in accounting reports. If, for example, a center were to change its method of accounting for certain transactions, and if the change had a material effect on the reported financial position or operating results, the nature of the change in method and its effect must be fully disclosed by explanatory footnotes or by comments attached to the report. No fact that would influence the decisions of management, the governing board, or other users of financial statements should be omitted from or concealed in accounting

reports.

Materiality

The dividing line between material and immaterial amounts is not readily determined. It is clear, however, that an amount is material if its exclusion from an accounting statement would cause misleading or incorrect conclusions to be drawn by users of the statement. The tendency is to assign more importance to immaterial items than they warrant.

Stable Monetary Unit

Accounting records represent primarily events and facts that can be expressed in terms of dollars and cents. The monetary unit is the common denominator employed in the accounting process so that summations can be made of different kinds of assets, liabilities, revenues, and expenses. All transactions are recorded and reported in terms of dollars, just as if a dollar of depreciation expense, for example, were exactly like a dollar paid for salaries and wages. Accounting is designed to measure every transaction according to the number of dollars involved, regardless of whether the value (purchasing power) of the dollars is equal or unequal. The underlying assumption, of course, is that the general price level remains reasonably stable; otherwise, the usefulness of the dollar as the standard of measurement would be impaired. While the purchasing power of the dollar has declined steadily in the last two decades, no generally acceptable alternative common denominator has been found.

Periodicity

The life of the enterprise is divided into one-year time segments

called accounting periods or fiscal years. In addition to annual reporting, financial statements in comparative form is desirable. Such presentations provide a reference to past fiscal performance and place the current data in proper perspective.

Basis of Valuation

Cost is the basis used in accounting for the valuation of most assets and for recording most expenses. Historical cost, simply defined, is the amount of cash or cash equivalents given in exchange for properties or services. It is the basis for the valuation of most assets and for the recording of most expenses. Until an asset---such as inventory or equipment---is sold, consumed in operations, or otherwise disposed of, it generally is retained in the accounting records at its original cost.

Centers may, however, acquire properties by way of donation. In such instances there is not "cost" in the usual sense, but the acquired property nevertheless should be entered in the accounting records at its fair market value when received. If a donated asset is depreciable property, subsequent depreciation charges should also be based on the asset's fair market value at the date it was donated to the center. Failure to give accounting recognition to donated properties results in an understatement of assets, revenues, and expenses. The value of donated services should also be estimated and reported, especially if such service would otherwise be provided by the center. Plant assets ordinarily are carried in the accounts at original cost or if donated, at the fair market value at the time of acquisition, and depreciation charges are based on these valuations. (See also "Depreciation," page 13.)

ACCOUNTING CONVENTIONS

Cash vs. Accrual Basis Accounting

The cash basis method of accounting recognizes revenue only when cash is actually received and recognizes expenses only when they are paid.

Under the accrual basis method of accounting, revenue is realized and recorded when it is earned regardless of when it is collected, and expenses are recognized and recorded when they are incurred even though they are not paid until a subsequent period.

Any statement showing the center's financial position cannot be prepared in the most meaningful way on the cash basis as it is impossible to show a center's actual financial condition if its receivables and liabilities are not included. Even though the cash basis method of accounting is used, it is imperative that a statement of financial condition be prepared periodically in the accrual method, or available information will not reflect the true financial status of the center.

It should be evident that cost finding procedures must take into consideration uncollected receivables and unpaid expenses regardless of whether the accounting system is in a cash or accrual basis.

Before one can set up the accounting records for a center and begin recording transactions, one must decide which method of accounting will be adopted. Particularly in view of the differences in the requirements of various state laws, if necessary, cash basis records can be maintained during the year and converted to the accrual basis when desirable at the end of an accounting period. However, this will require some additional work time and effort.

The Cash Basis Records and Reports

The accounting records needed by a center using the cash basis

method of accounting are fairly simple. The two main records are a Check Register in which to record the cash disbursements and a Cash Receipts Journal in which to record the cash received. A Payroll Journal and other payroll records outlined in Chapter 7 must also be maintained, however, to account for the payroll and payroll taxes withheld.

Although revenue is not recorded as income until it is received, some accounts receivable records must be maintained in order to account for the amounts which are charged to the center's patients for services rendered.

It is apparent, therefore, that the only transactions which are not recorded in any way in a cash basis system but which are recorded in an accrual basis system are those related to accounts payable. Even in this area, it is necessary for the center to maintain at least a file of the outstanding invoices so its manager can determine the center's financial position.

In summary, the type of record needed under the cash basis method of accounting consists of the following:

1. The cash receipts records, cash disbursements records, and payroll records which are posted to a general ledger and indicate the revenue and expense of the center
2. The accounts receivable records and accounts payable records which are maintained for control purposes, which are not posted to a general ledger, and which do not affect the center's revenue or expenses

The financial statements of a center using the cash basis method of accounting reflect only actual cash transactions. The revenue and expense statements reflect only (cash) revenue actually received and expenses actually paid. The center using the cash basis method of accounting could have, therefore incurred thousands of dollars in expenses which are not shown on their financial statements because the

bills have not been paid. They could have billed patients for thousands of dollars for services rendered which will not be shown because they have not been collected.

The Accrual Basis Records and Reports

The accounting records used by a center on the accrual basis method of accounting are very similar to those used under the cash basis. The main difference is that the accounts receivable and accounts payable records are not merely used for control purposes but they are also journals which are posted to the general ledger. In this way, the revenue earned, whether collected or not, and the expenses incurred, whether paid or not, are recorded and become a part of the realized revenue and expenses of the center and are, therefore, reflected in the center's financial statements.

The financial statements prepared on the accrual basis method of accounting are more informative than those on the cash basis, for they include all of the financial transactions of the center. In the revenue and expense statements, actual revenue earned is matched against actual expenses for the same period, whether they have been paid or not. Actual revenue earned (not necessarily collected) and expenses incurred (not necessarily paid) may be compared with the center's budget for the same period. These statements include all of the financial information needed for the evaluation of operations for the period and can be readily used with patient data and other service statistics gathered for cost finding purposes.

The accrual basis statement of financial condition reflects the true financial position of the center as it includes all of the receivables and payables (liabilities) as of a certain date.

It is highly recommended that the accrual basis method of accounting be adopted by all centers. This method of accounting provides better control of the assets and liabilities of the center and the resulting financial statements will reflect the true results of operations for the period and show the true financial position of the center at a given date.

It is imperative that accrual basis financial data be used when applying cost finding procedures.

Fund Accounting

In addition to funds that may be used for general operating purposes, centers may also receive gifts, endowments, grants and appropriations. Such funds usually are given over in trust to the center and are designated for specified purposes such as construction, equipment, research, or education. Donor instructions sometimes require that the principal be kept intact and invested, with only the interest from principal to be expended in accordance with the terms of the endowment. Aside from the moral and legal duty to observe such restrictions, there arises a managerial need for a separate accounting for groups of resources whose use must be limited to particular center activities or functions. A system of accounting known as fund accounting has been developed in response to this need.

The employment of fund accounting may be required by state law if the center is state supported. In other situations, however, accounting authorities disagree as to the need for fund accounting. At one extreme are those who regard fund accounting as essential and consider each fund as a separate accounting entity. They think of depreciation, for example, as "rent" to be paid to the Plant Fund by the General Fund for the use of

plant assets. Another view alleges that fund accounting unduly complicates the accounting process and insists that the objectives of fund accounting can be accomplished simply by segregating the assets and liabilities by funds, maintaining, however, a single capital account. Even so, most of those belonging to this school of thought give support to the practice of reporting operating results and financial positions by funds.

The legal obligations attached to many endowments and certain grants for research projects would seem to make the use of an account for Endowment and Specific Purpose Funds at least administratively desirable, if not legally essential.

Revenues

Center revenue consists partly of the value of all services rendered to patients and other clients and agencies at the center's full established rates regardless of the amounts actually paid to the center by or on behalf of such persons or agencies. The objective of patient service revenue accounting should be that of compiling a complete and accurate record on an accrual basis of gross revenues earned. Patient service revenues should be accumulated in the accounts in a manner that first identifies the revenues with the organizational units which produced the revenues, and then subdivides these classifications according to type of patient (inpatients, partial hospitalization, outpatients, and so on), financial status of patient, or in some other meaningful manner. Measurements of departmental patient service revenues then can be compared with direct departmental expenses, so that the performance of each organizational unit can be evaluated, planned, and controlled more effectively.

Centers also have revenues that arise from sources not directly associated with patient care. Centers, for example, conduct educational programs and some centers receive tuition fees from students. In those instances when the programs cover an extended period of time and when material amounts of tuition fees are received in advance, such fees should be taken up as income on a pro-rata basis over the period of time the programs are conducted. Otherwise, a mismatching of revenues and expenses would result. Consultation services provided to specific social agencies should be handled in a manner similar to patient services.

Deductions from Revenue

In many instances, the center receives less than its full established rate for the services it renders, sometimes nothing. It is essential that accounting information reflect both the potential gross revenue and revenue "losses" resulting from inability to collect established rates for services provided. These revenue "losses," called "Deductions from Revenue," are of four basic types:

1. Donated Service

Donated service represents the uncollectable value of services rendered to financially indigent patients at the center's full established rates. Allowances in this category may vary from small reductions in regular charges for some patients to 100 percent free care for others.

2. Contractual Adjustments

These adjustments represent the uncollectable difference between full established charges for individual services and the contractual rates for composite services, usually on a per diem basis.

3. Administrative Adjustments

These adjustments represent immaterial amounts of service revenue not billed to patients or agencies because the cost of billing

and collection would exceed the amounts received.

4. Provision for Bad Debts

This deduction represents the estimated amount of accounts receivable likely to be credit losses.

All of those deductions should be recorded and reported as direct deductions from gross revenue rather than as expenses.

Expenses

Expenses are costs that have been used or consumed in carrying on some activity and from which no benefit will extend beyond the present.

The objective of expense accounting is to accumulate complete and meaningful records of expenses in a manner which clearly associates expenses with responsibility centers or elements of services in the mental health center. Within each element of service a further classification of expenses would be made according to object of expenditure in a manner that will permit subsequent reclassifications for purposes of uniform financial reporting.

Careful accounting should be made of fund-raising expenses incurred by centers. Where these expenses are material in amount, they should be fully and separately disclosed in the income statement. The practice of reporting only the net proceeds of a fund-raising campaign is not acceptable for example.

Capitalization

Difficulties are sometimes encountered in connection with the treatment of expenditures for acquiring, improving, or repairing fixed assets. The problem of which expenditures to capitalize, that is, to convert to assets, is best resolved on a practical rather than a theoretical basis. Some policy should be established and followed consistently. Such a policy, for example, may be to capitalize all plant

asset expenditures of \$100 or larger. Plant asset expenditures of less than \$100 would not be capitalized. Each center should develop its own policy based upon its experience and then follow this policy consistently.

Interest accrued during the construction period on debt used in financing construction, however, should be capitalized as an addition to the cost of the asset under construction. The amount that should be capitalized should be an amount equivalent to the interest on the cost of the borrowed funds actually invested in the plant.

Depreciation

Depreciation is the systematic write-off of the cost of buildings and equipment to expense over their useful life. This subject requires special attention because many centers still do not include depreciation as an element of expense; it is argued that depreciation should not be recognized because most of the plant assets are acquired by donations or are purchased with governmental funds. There also are those who record depreciation on plant assets, however, acquired only when cash is being set aside for the future replacement of such assets.

All assets owned by a center--no matter how the assets were acquired--must be included in the center's statement of financial condition. If the assets are depreciable, it would be inconsistent and confusing to recognize the assets and ignore the related depreciation. The balance sheet valuation of the assets would be improper in that the accumulated depreciation charges would not be recorded and deducted from the plant asset account and, more importantly, the real costs of operating the center would be significantly understated.

It must be remembered that depreciation of plant assets occurs whether it is recorded or not and regardless of the original source of the assets or the means employed to replace them. Depreciation is

an economic fact and an allowable expense by Medicare and most other health insurance programs.

It is recommended that depreciation be computed on the center's buildings and equipment at the end of the year as a part of its cost finding procedures.

Matching Revenues and Expenses

As indicated earlier, revenue and expense amounts need to be matched on an accrual basis at the end of each accounting period in order to determine results of the operation. Sometimes overlooked is the requirement that deductions from revenue also should be matched against the gross revenues of the accounting period. During the accounting period, patients' accounts receivable will be debited and revenue accounts will be credited at the center's full established rates for all services rendered to patients. Some amount of these accounts receivable will remain unpaid at the end of the accounting period. Many of these accounts will be collected in cash from the patients or from their third-party sponsors, but the remainder eventually will be written off as deductions from revenue.

CHAPTER 2

THE ACCOUNTING RECORDS AND REPORTS

The discussion in the previous chapter was devoted to a summary of accounting principles and theory. This chapter is written to give a general summary of the accounting records and reports which will be discussed in more detail in the chapters which follow.

ACCOUNTING RECORDS

The accounting records of a center consist of three types.

1. Original Documents

These documents include the checks, cash receipts, purchase invoices, payroll time records, or any other objective evidence supporting financial transactions.

2. Journals

The information from the original documents representing the center's individual financial transactions are summarized in records called journals. A separate journal is normally maintained for each different type of transaction and the individual transactions are entered in the journals in chronological order. One example of a journal would be a check register. Columns would be provided to record such information as the date, check number, payee, amount, and expense distribution.

The following journals would usually be used by a center.

Check Register: to record cash disbursements

Cash Receipts Register: to record cash received

Accounts Receivable Journal: to record charges for services performed

Purchase Journal: to record purchases of supplies or services on credit

Payroll Journal: to record payrolls

3. General Ledger

While the journals are used to summarize by type of transaction the information found on the original documents, the ledger is

used to summarize by account the information recorded in the journals. The transactions are summarized in the journals by type of transaction. The journal totals are then entered (posted) to accounts in the general ledger. In this ledger, a separate page is usually provided for each account (e.g., bank account, accounts receivable) to be charged or credited.

The ledger accounts provide a continuous summary of the financial transactions of a center from year to year. The financial statements are prepared from the information contained in the ledger.

ACCOUNTING REPORTS

Any number of financial statements or reports may be prepared for a center. There are two reports which should be prepared by every center.

1. Statement of Financial Condition (Balance Sheet)

This statement lists assets, liabilities, and fund balances of a center at a certain date and reflects the center's financial position as of that date.

2. Statement of Income and Expense

This statement lists the revenues and expenses of a center for a stated period of time. It reflects the results of operations of the center.

This statement is of far more use when it is presented in a form which compares the current operations with the revenues and expenses of a comparable prior period. This report should also be prepared in a form which compares actual revenue and expenses with those provided for in the budget plan of the center.

ACCOUNTS

The accounts in the General Ledger may be divided into five groups.

1. Assets: the properties owned by a center
2. Liabilities: amounts owed by the center
3. Fund Balance: the unobligated portion of a center's assets
4. Revenue and Adjustments to Revenue: all revenue of the center
5. Expenses: expenses of operating the center

The individual accounts found in a center's general ledger all fall into these five groups and should be uniformly located in the order

listed above. The first three groups of accounts are referred to as "balance sheet" accounts since they are the accounts listed on the center's balance sheet (Statement of Financial Condition).

The other two groups of accounts reflect the operating revenue and expenses of a center which are presented in the Statement of Income and Expense.

NUMBERING SYSTEM

In order to assure that each transaction will be recorded correctly in the journals and ultimately end up in the correct general ledger account, a numbering system has been developed and a number has been assigned to each account in the General Ledger. In this way as each transaction occurs, the original document can be coded so the transaction will be entered in the correct journal, posted to the correct general ledger account, and be properly reflected in the financial reports.

CHART OF ACCOUNTS

A chart of accounts is a listing of all of the account titles, with their numerical codes, which are employed in the compilation of financial data concerning the assets, liabilities, capital, revenues, and expenses of a center. The chart of accounts should be designed to result in the accumulation of information in classifications most useful to management for planning and control purposes. Since no two centers are organized in exactly the same way, it follows that no two centers will have exactly the same chart of accounts.

An outline of a recommended chart of accounts for centers is presented in the next four chapters along with an explanation of the numerical coding system. These chapters also include a discussion of the

nature and content of each account. It is recognized, however, that it is impossible to develop a chart of accounts that will fulfill all of the requirements of all centers. Many centers will not require much of the detailed information provided for in the chart; others may require even more detailed classifications. A wide range of accounts is provided here because it is easier for the individual center to omit those not needed than to add accounts that are needed but not described in the manual. The chart is designed to permit contraction or expansion to meet specific requirements while maintaining a basic uniformity for recording and reporting financial information.

CODING SYSTEM

The numerical coding system in the chart of accounts provides for the use of five digits. Account numbers include three digits to the left of a decimal point and two digits to the right. Use of one or more additional digits to the right of the decimal will allow for expansion if more detail is required. Each of the digits has a specific meaning as explained in the following chapters.

As an example, throughout the chart of accounts the first digit of an account number designates the financial statement classification of the account. The classification follows the sequence in which the information customarily is presented in the financial statements and general ledger. The first digit is customarily used to designate accounts as follows:

Balance Sheet Accounts

- 1 Assets
- 2 Equities (Liability and Capital or Fund Balance Accounts)

Revenue Accounts

- 3 Fee for Service Revenue
- 4 Non-fee for Service Revenue
- 5 Adjustments to Revenues

Expense Accounts

- 6 Mental Health Service Expenses
- 7 Unassigned: (for expansion)
- 8 General Services Expenses
- 9 Administrative Services Expenses

Additional digits are used to further subclassify the individual accounts as needed to provide the detail necessary for the preparation of financial statements and subsequent cost finding.

SUMMARY

As daily financial transactions occur within a center, the original documents should be prepared and coded with the five digit number of the General Ledger account in which the transaction is to be eventually recorded. Throughout the month the information from the original documents should be entered in the appropriate journal. At the end of the month the journals should be totaled, balanced, and posted to the appropriate general ledger accounts.

The desired financial statements and other reports can then be prepared for review by the center director from the information in the general ledger.

At any time during the year the journals and ledgers will provide the financial information needed in conjunction with the statistical records for cost-finding purposes for preparation of any federal, state, or local reports or for management needs.

CHAPTER 3

BALANCE SHEET ACCOUNTS

The balance sheet accounts are those accounts reflecting a center's financial condition. These accounts may be divided into three categories as follows:

1. Assets--things of value owned by a center--cash, receivables, building, equipment, expenses paid in advance, etc.
2. Liabilities--amounts owed by the center such as accounts payable, payroll taxes payable, mortgage payable, etc.
3. Capital or Fund Balance--represents the center's net equity in the assets.

NUMERICAL CODING OF BALANCE SHEET ACCOUNTS

Each balance sheet account is identified by a five digit account number.

The first digit of the balance sheet account number is a "1," identifying it as an asset account, or a "2," representing either a liability or fund balance account.

The second digit of the balance sheet account number may be any number from "1" to "9" designating the fund to which the account belongs or the type of fund if fund accounting is not used. Fund accounting is explained throughout this chapter. The separate funds, along with their identifying second digit, are:

- 1 Operating Fund
- 2 Restricted Fund
- 3 Endowment Fund
- 4 Plant Fund
- 5 Construction Fund
- 6-9 Any Other Fund Needed

The third digit of the balance sheet account number identifies the primary account groups. The ten primary account groups which include all balance sheet accounts are as follows:

- 0 Cash
- 1 Investments
- 2 Receivables
- 3 Inventories
- 4 Prepaid Expenses
- 5 Land, Buildings, and Equipment
- 6 Accumulated Depreciation
- 7 Current Liabilities
- 8 Non-current Liabilities
- 9 Fund Balance

The fourth and fifth digits, which are used following a decimal point, allow for further breakdown of the group of accounts identified by the third digit.

Examples of the use of five digits. The entire five digits of a balance sheet account might be 110.00.

1st digit "1" Asset (something owned by the center)

2nd digit "1" Operating Fund (for use in daily operations)

3rd digit "0" Cash

4th digit "0" Checking Account

5th digit "0" designates which checking account, if more than one is maintained by the center

FUND ACCOUNTING AND BALANCE SHEET ACCOUNTS

Some accountants prefer to maintain a separate group of accounts to account for the funds of the organization which are designated for different uses. When this is done it is called fund accounting. The five funds for which separate accounts are often set up are:

1. Operating Fund: the accounts for funds used in the daily operations of the center
2. Restricted Fund: the accounts used to record and control resources received by the center which are restricted and must be used as designated by the donor

Figure 1

NUMERICAL CODING SYSTEM FOR BALANCE SHEET ACCOUNTS

First Digit	Second Digit	Third Digit	Decimal Point	Fourth Digit	Fifth Digit
(Type of Acct.)	(Fund)	(Classification)		(Subclassific.)	(Subclassific.)
Digit	Digit	Digit		Digit	Digit
0 (Not Used)	0 (Not Used)	0 <u>Cash</u>	.	0	0
1 Assets	1 Operating Fund	1 Investments	.	1	1
	2 Specific Purpose Fund	2 Receivables	.	2	2
	3 Endowment Fund	3 Inventory	.	3	3
	4 Plant Fund	4 Prepaid Expense	.	4 Classifica- tion according to individual center Requirements	4 Classifica- tion according to individual center Requirements
2 Liability or Fund Balance	5 Construc- tion Fund	5 Land, Build- ings and Equipment	.	5	5
	6	6 Accumulated Depreciation	.	6	6
	7 Any Other Fund Needed	7 Current Liabilities	.	7	7
	8	8 Non-current Liabilities	.	8	8
	9	9 Fund Balance	.	9	9

Adapted from American Hospital Association: Chart of Accounts for Hospitals, 1966

3. Endowment Fund: the accounts used to account for assets contributed to the center which must be maintained intact
4. Plant Fund: the accounts used to account for the land, building, and equipment owned by the center
5. Construction Fund: the accounts provided to account for a construction project.

Most centers may prefer not to set up separate accounting records for each fund. Account numbers are provided, however, for fund accounting for centers wanting to use that method or required to use it. On the following pages, the recommended balance sheet accounts are individually discussed by each separate fund. Although your center may not wish to use fund accounting, all centers should use the Operating Fund. In the discussion of each of the other funds on the following pages, instructions are given on how to record the funds separately or combine them with the Operating Fund.

OPERATING FUND BALANCE SHEET ACCOUNTS

The Operating Fund balance sheet accounts are those used to account for the transactions related to the regular daily operations of the center.

110-114 Operating Fund Assets

The properties owned by a center are called assets. Operating Fund assets consist of cash and other assets of a current nature which are available for general purposes.

110 Cash

110.11-110.49 Cash in Bank

The cash in bank accounts should reflect the amount of cash on deposit in banks and immediately available for use in the general operating activities of the center.

Certain rules are suggested to provide the center with good control over its cash.

1. Each day's cash receipts should be recorded on a separate deposit slip and deposited intact. If this is done, each bank deposit will

reconcile to one day's receipts in the cash receipts records. Bank deposits should be made daily if possible.

2. If possible, two authorized signatures should be required on all checks written. Blank checks should never be signed in advance.
3. Each check written should be supported by a vendor's invoice and/or some other supporting document.
4. Each bank account should be reconciled to the bank statement monthly, if possible by someone other than the individual who handles and records the cash transactions.

A center may have any number of bank accounts in the Operating Fund. Three accounts might be used in the following way:

110.00 Cash in Bank: Checking

This account would be used as the depository of all funds received in the general operations of the center. All operating expenses would be paid from this account.

110.10 Cash in Bank: Payroll

This account may be used, if desired, to segregate funds so they will be available to meet payrolls as they become due or merely as a separate payroll checking account by centers having large payrolls. In the latter case, after the payroll is computed, an amount equal to the net checks to be written is transferred from the general checking account and the payroll checks are then written against this account.

110.20 Cash in Bank: Payroll Taxes

Many small businesses fail because they do not provide funds for payment of the employer's share of the payroll taxes or the taxes and other amounts withheld from the employees. This account may be used, if desired, to provide for these tax and withholding payments. A composite percentage should be computed which would cover all of the employer's share of the payroll taxes. The gross pay should be multiplied by this percentage, and the amount computed plus the amount of the payroll taxes and other items withheld should be transferred from the general checking account to this account each payday. The payroll taxes, tax deposits, and other items withheld can then be paid out of this account as they become due. The composite percentage rate will need to be adjusted during the year as the employees' salaries exceed amounts subject to the various taxes.

110.50-110.99 Cash on Hand

As little cash as possible should be kept on hand at the center. Two cash accounts which might be desired are:

110.50 Petty Cash Fund

Whenever possible, disbursements should be made by check. This account can be used, however, to account for a small petty cash fund to be used to make miscellaneous small payments such as c.o.d. deliveries, postage, etc.

To open this account, write a check on the general checking account and cash the check. Place the cash in a cash drawer. Whenever a payment is made, replace it with a signed receipt. The receipts and cash on hand should always equal the original balance. When the cash is depleted, write another check, this time for the amount of the written receipts in the drawer, and cash the check so you can replace the cash which had previously been spent. The receipts are then used as support for the check and the proper accounts are charged with the amounts expended. The cash in the drawer will again equal the original balance.

If this account must be replenished more than once a month, the account balance may be too small or too many cash payments are being made. The amount established as a petty cash fund should be approved by the manager.

110.60 Cashier's Change Fund

This account is used to account for cash kept on hand to make change when patients are paying for services. This account is opened by making a transfer from the general checking account. At the end of each day, the cash on hand should be counted and reconciled to the receipts record, overages and shortages should be checked, and the day's receipts should be deposited in the general checking account, leaving an amount in the cash drawer equal to the balance of the account.

111 Investments

The balance of these accounts should reflect the amount of general operating funds temporarily invested in bank savings accounts, in savings and loan associations, and in various securities. The fair market value of securities contributed to the center for general operating purposes also should be included in these accounts. When the securities are received, the offsetting credit is made to a contribution account in the revenue section. In some unusual instances, the Operating Fund may include certain long-term investments among its assets. These should be carefully identified so they are not considered as being available for use when preparing the current budget plans. Investments should be clearly identified as long or short term when listed on the financial statements.

112 Receivables

Possibly one of the most time consuming tasks in record keeping for a center is accounting for the receivables. It is common to have a control account in the General Ledger for each type of receivable

account supported by a subsidiary ledger with an account card for each individual account.

There are certain suggested procedures which should be followed:

1. The subsidiary records should be reconciled to the control accounts monthly before statements are mailed.
2. The individual handling cash receipts should not have access to the receivable records.
3. Only discounts and write-offs supported by written authorization should be entered in the receivables records.

The following receivable accounts might be maintained:

112.00-112.19 Accounts and Notes Receivable

Twenty separate accounts are provided which may be used as desired by the center. A separate receivable account might be maintained for each type of receivable such as those due from the patient, Medicare, Medicaid, or private insurance.

112.20-112.29 Allowance for Uncollectable Receivables

At the end of the year or each month (if financial statements are to be prepared) the amount of the estimated uncollectable accounts on the books is computed. This account is adjusted to an amount equal to the computed amount and the offsetting amount is charged to a deduction from revenue.

Whenever an account is determined to be uncollectable, it is written off against this account.

Written authorization should be required before any account is written off.

112.30-112.39 Recoveries of Accounts Written Off

Amounts collected on receivables previously written off are deposited in the general checking account and may be credited to these accounts. It is acceptable, however, to eliminate these accounts and credit the collections directly against the 112.20-112.29 Allowance for Uncollectable Receivables.

112.40-112.49 Accounts Receivable--Staff

Generally, receivables for services provided to the staff may be carried in the regular receivables control. This series of receivables may be desired to record travel or other advances to employees.

112.50-112.59 Accrued Receivables

These accounts would be used to record income earned from investments which have not been received. One example might be 112.50, Accrued Interest Receivable.

Entries to these accounts are normally only recorded at the time financial statements are to be prepared.

112.90-112.99 Due from Other Funds

In fund accounting each fund has its own self-balancing set of accounts. If assets are temporarily transferred between funds, an interfund receivables results and is recorded here.

113 Inventories

If a center is very large, a central supply room is charged with all inventory when it is purchased, and later as it is consumed the charge is transferred to the proper organizational unit where the supplies were used. In this case, detailed perpetual inventory records must be maintained. This account represents the cost of all of the inventory on hand as reflected in the perpetual inventory records.

In a smaller center, the program might be charged directly as the purchases are made and each organizational unit would retain its own supplies. In this case each unit would submit a written inventory list at the end of the period so it could be recorded on the books.

114 Prepaid Expenses

Prepaid expenses are expenses relating to a future period which have already been paid. An example would be a three-year insurance premium. The amounts in this account represent the amount which will be charged to expense in future periods.

217 Current Liabilities

Current liabilities are those debts which will be paid within the current operating period or one calendar year.

217.00-217.09 Accounts Payable

These accounts represent amounts due to trade creditors for purchases of services or supplies. A file of unpaid invoices should be maintained to support this account.

217.10-217.19 Salaries and Wages Payable

These accounts represent the amounts earned but still unpaid.

217.20-217.29 Payroll Taxes and Deductions Payable

These accounts should represent the liability for the payroll taxes withheld and the employer's portion of payroll taxes unpaid.

217.30-217.39 Notes and Loans Payable

A center may borrow money on a short term loan or possibly give a trade creditor a note in order to delay payment of the account. This type of liability is recorded in these accounts.

217.40-217.49 Accrued Expenses Payable

Liability for expenses incurred but not payable until some future date are recorded here, for example, prepaid insurance, consultants.

217.50-217.59 Deferred Income

When payment is received for which a service will be performed in a future period, it is carried in this account until it has been earned and then transferred to a revenue account.

217.60-217.69 Credit Balance in Patients' Accounts

Such balances may be transferred to this account from the 112 series accounts. It is not necessary to set up these accounts, however, if the amounts are immaterial and the Accounts Receivable are reviewed periodically.

217.70-217.89 Other Current Liabilities

These accounts are available for use as needed.

217.90-217.99 Due to Other Funds

219 Operating Fund Balances

219.00-219.09 Accumulated Earnings or Deficit

This account is credited or debited at the end of each accounting period for the set revenue and expense for that period. The balance of the account, if a credit, then represents the net equity in the operating fund assets. A debit balance would represent a deficit.

219.10-219.99 Unassigned

These accounts are available for use as needed.

RESTRICTED FUND BALANCE SHEET ACCOUNTS

The Restricted Fund provides a separate record and control over resources received by the center which are restricted and must be used as designated by the donor.

If you receive Restricted Funds but do not wish to use fund accounting, you should at least open a separate bank account and use it to account for the cash of that Restricted Fund. The account may be recorded in your Operating Fund ledger and for identification purposes may be assigned an account number with a second digit "2" to identify the account as being restricted. The account may, however, be assigned one of the General Fund cash numbers from 110.00-110.49 and titled "Cash in Bank--Restricted."

In the case of federal payroll grants (e.g., staffing grants for mental health centers) the cash could be deposited in a separate restricted account and transfers made to a non-restricted account as qualifying payrolls are paid.

If you wish to use fund accounting, the following accounts should be used:

120 Cash: Restricted

120.00-120.49 Cash in Bank

120.50-120.99 Cash on Hand

121 Investments: 121.00-121.99

122 Receivables: 122.00-122.99

227 Current Liabilities: Restricted

227.00-227.09 Accounts Payable

227.10-227.19 Salaries and Wages Payable

227.20-227.29 Payroll Taxes and Deductions Payable

227.30-227.39 Notes and Loans Payable

227.40-227.49 Accrued Expenses Payable

227.50-227.59 Deferred Income

227.60-227.69 Credit Balance in Patients' Accounts

227.70-227.89 Other Current Liabilities

227.90-227.99 Due to Other Funds

229 Restricted Fund Balance

Restricted Fund Expenditures can generally be classified in two ways:

1. Those expenditures which are made in payment of general operating expenses of the center. These payments should be charged to expense in the general fund accounts and credited to a revenue account, i.e., revenue from Restricted Fund. In the Restricted Fund accounts, the cash account would then be reduced by the amount of the expenditure, and the Restricted Fund balance would be reduced by a similar amount.

2. Expenditures in payment of items which are not considered to be chargeable to general operating activities. These expenditures would merely reduce the Restricted Fund cash and the Restricted Fund balance. No entries are required in the Operating Fund accounts.

ENDOWMENT FUND BALANCE SHEET ACCOUNTS

The Endowment Fund accounts are designed to account for assets contributed to the center when there is a restriction on the use of assets. Generally, the use of the asset is restricted and must remain intact while only the income earned by the asset may be expendable. The following accounts are normally maintained in the Endowment Fund:

130 Cash

130.00-130.29: Cash in Bank: Restricted Accounts

130.30-130.49: Cash in Bank: Unrestricted Accounts

130.50-130.99: To be used as needed

131 Investments

132 Receivables

237 Current Liabilities

238 Long-term Liabilities

239 Endowment Fund Balance

Endowment Fund income and expenditures are recorded in accounts in the 239 series. An amount of cash equal to the net profit for the year is generally transferred from this fund to the Operating Fund or other funds designated to receive the profits. If you do not wish to establish a separate fund for your endowment assets, record them in your operating fund records using a separate account with a second digit "3" to identify the asset as a restricted endowment.

PLANT FUND BALANCE SHEET ACCOUNTS

The Plant Fund is provided to account for the land, building, and equipment owned by the center. This fund is often combined with the Operating Fund and recorded as a single fund. In the case of most centers, this is recommended.

The following accounts are normally maintained by the Plant Fund:

- 140 Cash
- 141 Investments
- 142 Receivables
- 145 Land, Building and Equipment
 - 145.00-145.29: Land and Land Improvements
 - 145.30-145.49: Buildings
 - 145.50-145.99: Equipment
- 146 Accumulated Depreciation
- 247 Current Liabilities
- 248 Long-term Liabilities
- 249 Plant Fund Balance

Accounts numbered in the 146 series would coincide with asset accounts in the 145 series.

If needed, income and expense accounts would be listed in the 249 series.

If separate fund accounting is not desired, use the account numbers above with a second digit "4" to identify operating fund accounts related to plant assets.

CONSTRUCTION FUND BALANCE SHEET ACCOUNTS

A Construction Fund is used only when a center has a construction project for which it wishes to account. The cost of construction is entered in these accounts until the building project is completed, and then the construction fund is closed and the cost of the building is transferred to the Plant Fund.

The following accounts are normally maintained in a Construction Fund:

- 150 Cash
- 151 Investments
- 152 Receivables
- 155 Plant Assets Under Construction
- 257 Current Liabilities
- 258 Long-term Liabilities
- 259 Construction Fund Capital

If separate fund accounting is not desired, open separate accounts in your general fund records using the account numbers above with a second digit "5" to identify your construction accounts.

CHAPTER 4

REVENUE AND ADJUSTMENTS TO REVENUE

A mental health center's revenue accounts are divided into three major categories:

1. Fee for Service Revenue

This group of accounts is used to record the revenues earned from charges made to patients or groups using the services of the center.

2. Non-fee for Service Revenue

This group of accounts is used to record the revenues received in the form of grants from federal, state, and local governments (e.g., federal staffing grants).

3. Other Revenue

This group of accounts is used to record other revenues of the center such as donations.

NUMERICAL CODING OF FEE FOR SERVICE REVENUE ACCOUNTS

Each Fee for Service Revenue account is identified by a five digit account number.

The first digit of a Fee for Service Revenue account number is a "3" identifying the account as a revenue account in which the fee charged for some service rendered by the center is recorded.

The second and third digit of a Fee for Service Revenue account identifies the specific program or department under which the service is being offered. The second and third digits in the revenue accounts will correspond with the related expense programs found in the 600-699 series, i.e., the same classifications should be used to record expenses and revenues.

The programs or departments identified by the digits may be referred to as revenue centers or responsibility centers. Such an allocation of revenue by responsibility centers will enable management to evaluate programs separately.

There are eleven general classifications of service provided by the

Community Mental Health Center legislation. These eleven classifications, which are primarily those regarded when reporting to the Department of Health, Education and Welfare, are the primary basis for classification of revenue and expense in this manual (See Chapter 6 for an alternative classification).

The eleven classifications of revenue for services are listed below along with the first three digits of the account number to be assigned to the revenue programs.

300-399 Fee for Service Revenue

- 300-319 Inpatient Service
- 320-339 Outpatient Service
- 340-349 Partial Hospitalization
- 350-359 Emergency Services
- 360-364 Consultation and Education
- 365-369 Diagnostic Services
- 370-374 Rehabilitation Service
- 375-379 Pre Care and After Care
- 380-384 Training
- 385-389 Research and Evaluation
- 390-399 Others as required

The fourth and fifth digits may be used to further classify the revenue or identify the type of patient being served, the source of revenue, or individual delivering service or in any other way desired. If these two digits are not used to further classify revenue, zeros should be placed in the spaces allocated to the fourth and fifth digits.

SELECTING THE APPROPRIATE FEE FOR SERVICE REVENUE ACCOUNT

The accounts you select will depend on how you charge for your center's services--not on what services your center offers.

Rates for Separate Services Rendered

If a center charges its patients according to a fixed rate table for the specific services they receive, the center should select and assign its revenue account numbers using the following method:

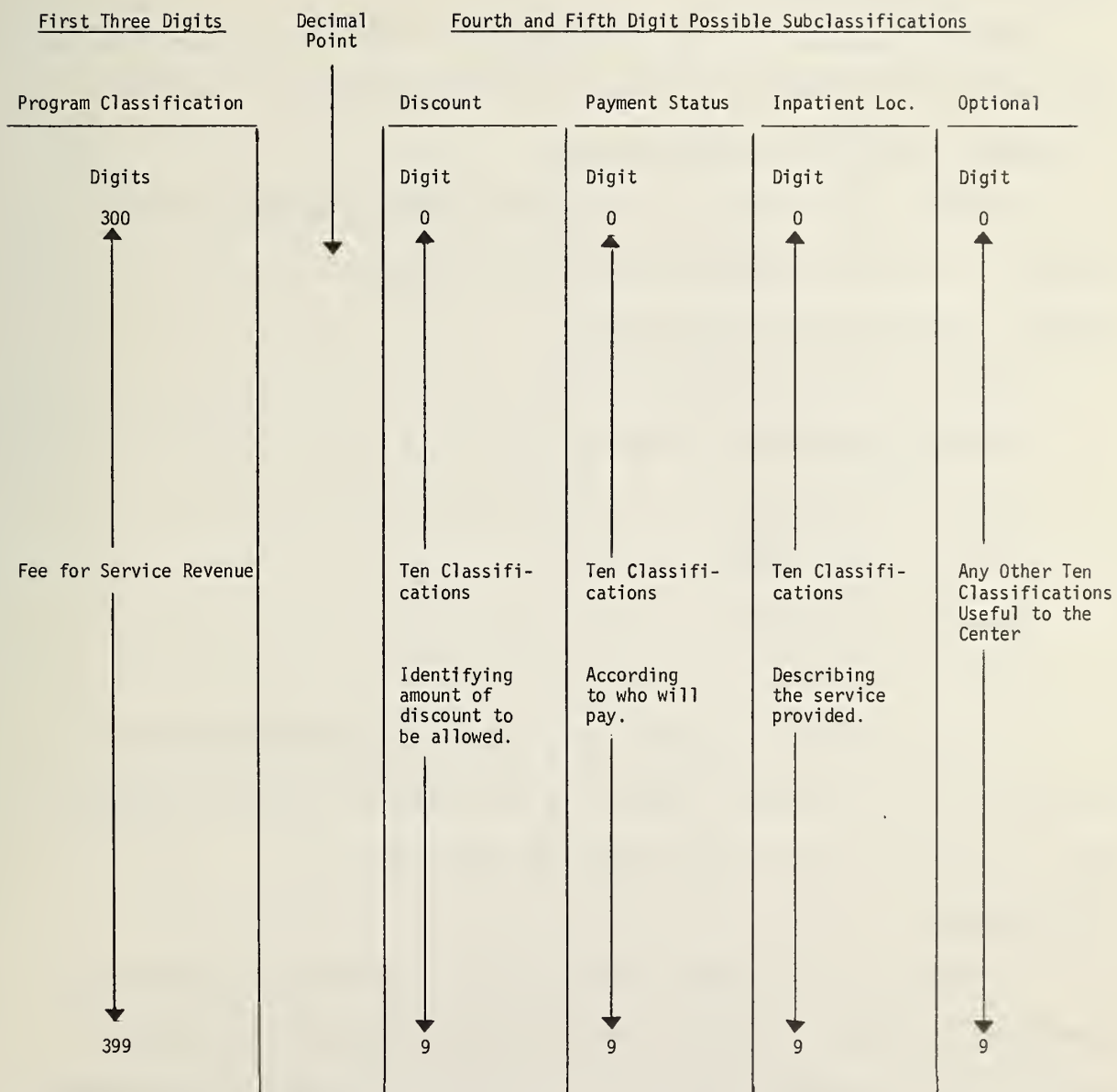
1. First assign a three-digit account number under the appropriate category in the 600 series in which to record the expenses of each program.
2. Then assign a corresponding revenue account number in the 300 series for any program which is to be revenue producing.

In this way the revenue from each program will be recorded in the 300 series and the expense of operating the same program will be recorded in a corresponding account in the 600 series. This will facilitate the preparation of financial statements and provide management with a comparison of the income and related expenses of each program.

Family Rates

In some centers it is customary to charge a family a flat monthly fee for the services rendered to the entire family. These monthly fees should be recorded in a separate revenue account and statistics gathered to provide for allocation of the fees to the specific services rendered. In this case, the center should select a revenue account for each different type of fee they charge without regard to matching of revenue and expense accounts. For centers using this procedure to match the revenue and the cost of a program, it will be necessary to establish cost finding procedures by which the revenue can be allocated to the program performing the service.

NUMERIC CODING SYSTEM FOR FEE FOR SERVICE REVENUE ACCOUNTS



NUMERICAL CODING OF NON-FEE FOR SERVICE REVENUE AND OTHER REVENUE

Non-fee for Service Revenue

Revenue received from any federal, state, county, or local government agency, other than in payment of services rendered, is recorded in revenue accounts in the 400 series.

The first three digits of the account numbers assigned to these non-fee for service revenue accounts are as follows:

400-499 Non-fee for Service Revenue

400-409 Federal Staffing Grants

410-419 Other Federal Funds

420-429 State Funds

430-439 County Funds

440-449 Local Funds

450-499 Unassigned

This designation of accounts provides for ten different revenue accounts in each category. Additional description or subclassification may be obtained by use of the fourth and fifth digits.

Other Revenue

A center may have revenue other than that received for services performed which does not come from a government agency. This miscellaneous revenue should be recorded in the 450-499 accounts. Such revenue might include donations from individuals or charitable organizations. It might also include gains on sale of equipment or other assets.

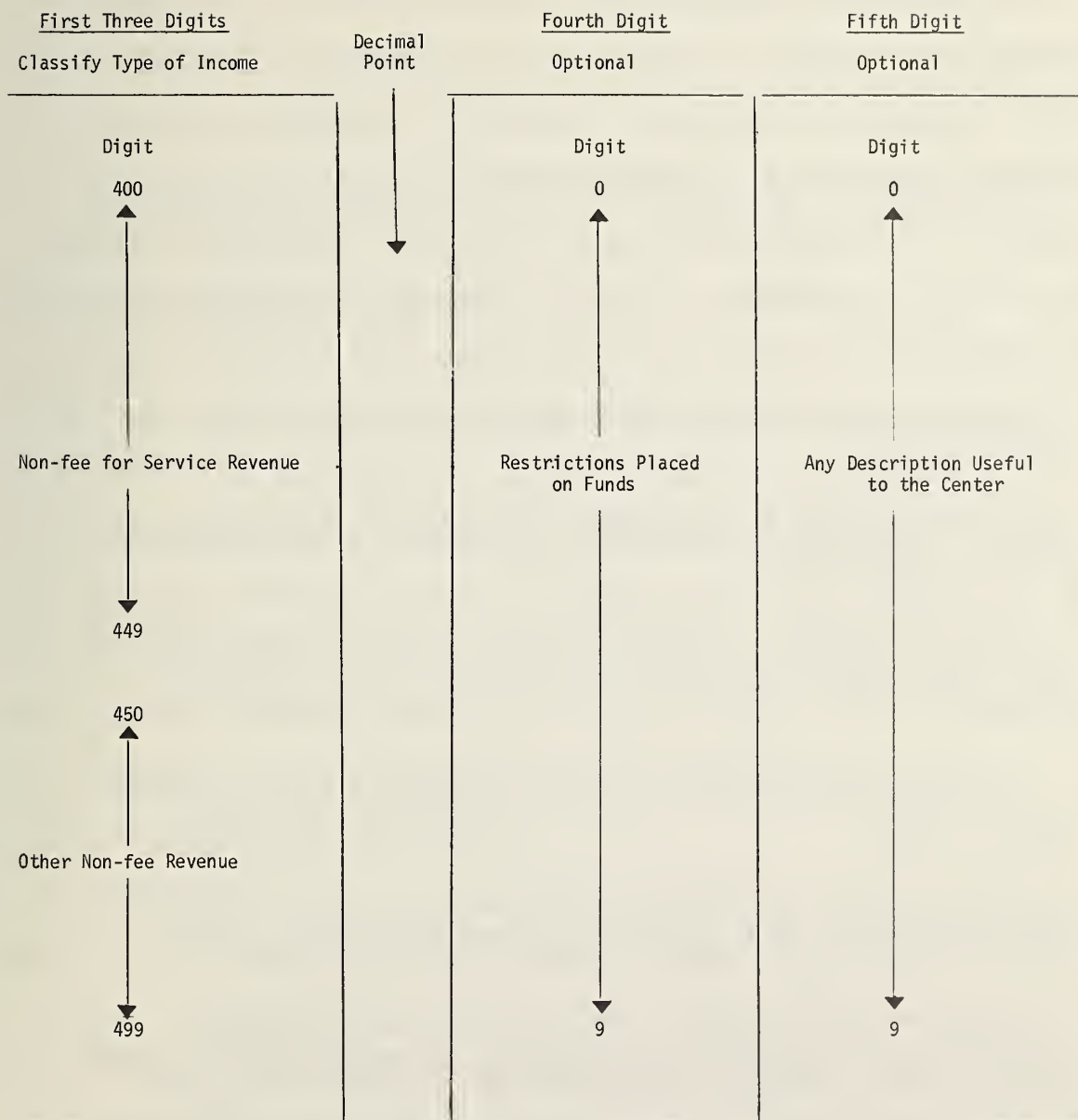
A center should assign numbers and open these accounts as they are needed. These accounts may be divided into two general groups:

450-459 Donations and Fund Raising

460-499 Other Revenue

Figure 3

NUMERIC CODING SYSTEM FOR NON-FEE FOR SERVICE REVENUE



NUMERICAL CODING OF ADJUSTMENTS TO REVENUE

It was previously recommended that revenue for services performed be recorded at the center's established rate regardless of the amount which will eventually be collected. A series of accounts classified as "Adjustments to Revenue" is provided to record any discounts allowed or any accounts which become uncollectable. Subsequent recoveries of amounts written off may be credited to the account originally charged with the amount written off.

The first digit "5" will always identify an adjustment to a revenue account.

The second digit is used to identify the type of discount allowed. The four suggested types of discounts to be classified by the second digit are:

1. Donated Service: to record the uncollectable value of service rendered to patients financially unable to pay the center's full established rates--useful in recording "part-pay" or "no-pay" patients
2. Contractual Adjustments: the uncollectable difference between full established rates for individual services and lower contractual rates
3. Administrative Adjustments: adjustments of accounts with immaterial balances not billed to patients because the cost of billing and collection would exceed the amounts received
4. Allowance for Bad Debts: actual uncollectable accounts written off or in some cases a provision for uncollectable accounts which are still carried in the receivable records.

The second digit, numbers 5-9, may be designated to identify any other type of discount useful to the program.

The third digit would be used to further subclassify the deductions from revenue. As an example, the third digit under contractual adjustments might be:

- 0 When no subclassification is desired
- 1 Blue Cross
- 2 Compensation Insurance

- 3 State
- 4 County
- 5 Commercial Insurance
- 6 Others as Needed

The fourth and fifth digits may be used to further subclassify the deductions from revenue or two zeros may be used to complete the five digit number.

RECORDING ADJUSTMENTS TO REVENUE

It is recommended that revenue from patient services be recorded at the center's full established rates regardless of the amount which will be billed to the patient or eventually collected. Although this is a good practice for cost accounting purposes, a center must consider the additional time which may be required to record the charges under this method if the proper accounting procedures are not selected. It is important, therefore, that we consider each type of discount to be recorded. Each type suggested is listed below with the corresponding account codes.

510-519 Donated Service Discounts

Donated Service Discounts are those allowed to patients financially unable to pay the full established rate. At the time an individual is accepted as a patient, his financial status should be reviewed and his ability to pay determined. If the center has established rate charts, it should have several charts, each showing a different financial level. The patient should be assigned a billing number which relates to the rate chart chosen for him. When the services rendered to the patient are recorded, the following entries are made.

112.10	Accounts Receivable: Patients	\$3.00	
510.00	Donated Service Discount	3.00	
	320.00 Outpatient Revenue		\$6.00

As you can see, the full established rate has been recorded, the discount as approved in advance has been recorded, and the patient's account shows the amount he is expected to pay.

If a center does not charge for separate services but charges a flat rate, a percentage discount would be assigned to each patient and the fee would be recorded in the same manner as above.

520-529 Contractual Adjustments

These accounts are provided to record discounts allowed to patients whose accounts are being paid by agencies contracting for service, private insurance, welfare or other sources. These discounts are incurred when the third party payment is accepted as full payment for the services.

If a contractual discount was the same amount as the donated service discount illustrated above, it would be recorded as follows:

1. At the time the service was rendered			
112.10	Accounts Receivable: Patients	\$6.00	
320.00	Outpatient Revenue		\$6.00
2. At the time the payment is received from the third party			
110.00	Cash in Bank	\$3.00	
520.00	Contractual Discounts	3.00	
112.10	Accounts Receivable: Patients		\$6.00

The discounts in both illustrations were for the same amount.

The Donated Service discount is determined and approved in advance, and it is recorded at the time the charge for the service is recorded. Although the contractual discount or payment by a third party may be agreed on in advance, the amount of the payment is not always readily determinable. For this reason, contractual discounts are entered at the time the payment is received.

If the patient has agreed to pay the amount of the charge in excess of the amount paid by the third party, a discount would not be recorded and the unpaid balance would be billed to the patient. In this instance, it is advisable to send the patient a copy of his statement showing when it has been billed to his insurance company and listing subsequent payments showing the amounts collected from the insurance company and the balance he is to pay. In this way the patient is always aware of the status of his account.

530-539 Administrative Adjustments

Administrative adjustments are made to eliminate small balances in accounts which are not worth billing as well as making other minor adjustments. These adjustments are normally made only three or four times a year when the accounts are reviewed, and the office manager wishes to eliminate these old unbillable amounts. A list of the accounts along with the amounts to be adjusted should be prepared, approved, and submitted to the bookkeeper who can then record the adjustments.

The written approval of the adjustments, made by a designated person, should be retained as support of the adjustments.

An entry to make an administrative adjustment might be:

530.00	Administrative Adjustments	\$3.00	
112.10	Accounts Receivable: Patients		\$3.00

Allowance for Bad Debts

If revenue is recorded at the time it is earned rather than at the time collected, it is only practical to make an allowance for those accounts which will be uncollectable. Unfortunately, one cannot determine at the time a service is performed exactly which patients will pay their accounts and which ones will not. This is why it is advisable to

provide for these uncollectable accounts by use of the Allowance for Bad Debts. Under ideal conditions, the bookkeeper will prepare an "aged" list of the Accounts Receivable each month. The office manager will then review the list and issue written instructions showing the administrative adjustments and also listing uncollectable accounts which should be written off. The bookkeeper then has authority to make the adjustment and write off the uncollectable accounts.

At the same time, an amount is computed which is an estimate of the amount of the uncollectable accounts remaining on the records. The allowance for bad debts is then adjusted to this balance.

The entries illustrating the use of the allowance for bad debts are as follows:

1. Entry to establish original allowance for bad debts estimated at 10% of accounts receivable:

540.00	Allowance for Bad Debts	\$500.00
112.20	Allowance for Uncollectable Receivables	\$500.00

2. Entry to write off ten accounts which total \$120.00

112.20	Allowance for Uncollectable Receivables	\$120.00
112.10	Accounts Receivable	\$120.00

The names of the patients and the amounts should be listed under this journal entry. The list of accounts, as approved by management, should also be filed in order to support this entry.

3. Entry to record collection of one account which was written off above:

110.00	Cash in Bank	\$ 20.00
112.20	Allowance for Uncollectable Receivables	\$ 20.00

An alternate entry if account 112.30, Recovery from Accounts Written Off, is used would be:

110.00	Cash in Bank	\$ 20.00
112.30	Recovery of Accounts Written Off	\$ 20.00

The entry to adjust the Allowance for Bad Debts at the end of a subsequent period is given below if the balance of account 112.20 (Allowance for Uncollectable Receivables) is \$400.00 (after entries one through three), and if the accounts receivable remaining in the books is \$4500, and if a ten percent allowance for uncollectable accounts is desired.

4.		
540.00	Allowance for Bad Debts	\$50.00
112.20	Allowance for Uncollectable Receivables	\$50.00

This entry would increase the 112.20 accounts to \$450.00 or ten percent of \$4500.00, the current Accounts Receivable balance. The size of the allowance needed by your center will need to be determined by experience and may be adjusted from time to time as needed.

Control Over Deductions, Allowances, and Write-offs

The importance of proper control over the Accounts Receivable records cannot be overemphasized. Some of the suggested procedures and controls are summarized as follows:

1. If possible, the individual recording the accounts receivable transactions should not have access to the center's cash.
2. The amount of charges to patients for services should be determined by someone other than the accounts receivable bookkeeper.
3. The accounts should be reviewed periodically by someone other than the accounts receivable bookkeeper and, if possible, monthly statements should be prepared, balanced to receivables records, and mailed by an individual other than the accounts receivable bookkeeper.
4. All discounts, adjustments, and write-offs should be approved in writing by someone other than the bookkeeper.

CHAPTER 5

ACCOUNTING FOR THE EXPENSES OF A MENTAL HEALTH CENTER

Expenses are the costs of operating a mental health center. Normally the expenses include only the expired costs of such items as salaries, rent, phone, utilities and supplies. The expenses of a center are extended for accounting purposes, however, to include equipment purchases and other capital outlay. In this way all proposed expenditures of a program can be budgeted and later compared with the expenditures actually incurred.

NUMERICAL CODING OF EXPENSE ACCOUNTS

The expense accounts of a center are identified by a five digit account number.

The first three digits of an expense account number identify the program. The three types of programs under which a center's operations are recorded are as follows:

Mental Health Service Programs: recorded in the 600 series

General Service Programs: recorded in the 800 series

Administrative Service Programs: recorded in the 900 series

The fourth digit of the account number is used in these programs to identify the major expense categories. The ten major expense categories are standard in all programs.

The fifth digit of the account number is used in these programs to further subclassify the expenses under the major expense categories.

Although the subclassifications may vary in each program, it is suggested that they be standard in the Mental Health Service Programs identified in the 600 series. Later in the chapter the standard expense categories found in each program are discussed. Under some of the categories, examples are given showing how the accounts might be

Figure 4

NUMERIC CODING SYSTEM FOR EXPENSES

First Three Digits		Fourth Digit	Fifth Digit
Program Classifications	Decimal Point	Expense Classifications	Expense Subclassification
Digits		Digit	Digit
600	↓	0 Salaries & Wages	0-9 Job Categories
↑		1 Employee Benefits	0-9 Type of Benefit
Mental Health Service		2 Fees	0-9 Types of Fees
General Service		3 Operating Supplies	0-9 Types of Supplies
Administrative Service		4 Operating Expenses	0-9 Types of Supplies
Programs		5 Office Expenses	0-9 Type of Service
↓		6 Travel and Transportation	0-9 Method of Travel
999		7 Other	0-9 Type of Expense
		8 Building Expenses	0-9 Type of Expense
		9 Capital Outlay	0-9 Classification

subclassified. It is impossible, however, to furnish standard sub-classifications which may be used by every center due to the varying needs of the centers.

OPERATING EXPENSE PROGRAMS

Before the account numbers of a center can be assigned, one must know which accounts are available and the purpose of each. Expenses are recorded in three types of programs. These are as follows:

600-699 Mental Health Service Programs

700-799 Unassigned

800-899 General Service Programs

900-999 Administrative Service Programs

If the center is small and its manager does not wish to keep the expenses separate by programs, he may decide to assign only one program number under which he will record all of the expenses of the center. In that case, it will be necessary for him to reallocate the costs at the end of the year so as to prepare federal reports and compute the costs of services.

If he wishes, however, he may assign a program number or several program numbers for each of the required or voluntary services being offered by the center and charge the costs to the individual programs during the year.

600-699 Mental Health Service Programs

This series of accounts is reserved to record the direct expenses of the services being offered by the center. Most of the services are income producing, therefore these accounts should have a corresponding revenue account in the 300 series.

The Mental Health Service Program numbers are further assigned as follows:

- 600-619 Inpatient Service
- 620-639 Outpatient Service
- 640-649 Partial Hospitalization
- 650-659 Emergency Service
- 660-664 Consultation and Education
- 665-669 Diagnostic Service
- 670-674 Rehabilitation
- 675-679 Pre Care and After Care
- 680-684 Training
- 685-689 Research and Evaluation
- 690-699 Other

A center's manager must first decide how many services the center will offer and then decide how he wishes to account for the expenses of each service. If, for example, it were decided to offer five different Outpatient Services, he may account for each under a separate program or assign only one number in the 620-639 series and record all of the expenses under one program. If an Inpatient Service is provided at the center, normally several of the 600-619 accounts will be assigned to account for the separate services of the inpatient facility. If the Inpatient Services are contracted out, the amount paid for the contracted services will be recorded in the same series of accounts.

800-899 General Service Programs

The general service program accounts are used to record the expenses of the non-revenue producing supporting services.

These accounts are further broken down as follows:

801-829 Dietary

830-849 Building Maintenance and Expense

850-859 Housekeeping

860-869 Laundry

870-899 Other

The use of these accounts is optional according to the center's needs. A center having an Inpatient Service program in the 600 series, for example, would usually use at least one Dietary account while other centers may not offer any food service and do not need these accounts.

Almost all centers would use one or more accounts in the 830-849 series to record the expenses of operating and maintaining the buildings where the center is operated. It is easier to record all of the rent, utilities, and other housing costs in these accounts and allocate them at the end of the year than it is to allocate each individual expense as it is paid.

The Housekeeping accounts, 850-859, would usually be used to record the housekeeping or janitorial expenses of the center. These too can be reallocated whenever desired for cost finding purposes.

The Laundry and Linen accounts, 860-869, may be used to record the expenses of operating a laundry or the amount paid for laundry services. If a center does not maintain its own laundry, it may be easier to charge the contract laundry service directly to the service programs; then laundry and linen accounts would not be needed.

The other general service program accounts, 870-899, may be used to record the expenses of any other supporting services.

All general service programs are normally allocated to the Mental Health Service Programs at the end of the year.

900-999 Administrative Programs

The Administrative Programs are used to record expenses related to the administrative and office functions of a center. A smaller center may wish to record all of its expenses of this type under one program. A large center may want to use a different account series to record such functions as personnel, administrative, accounting, purchasing, etc.

The 900-999 accounts have been reserved to provide a place to record the expenses which a center wishes to accumulate and later allocate to service centers. Accounts may be set up as needed. It should be kept in mind that only related items should be recorded in the same account for ease in allocation at a future date. All Administrative Service Programs are normally allocated to the mental health service programs at the end of the year.

Although the center is not required to use the supporting service programs in the 800 and 900 series, it is usually to their advantage to do so. These programs provide a place where the center may record expenses which are beneficial to several service programs and would otherwise require allocation to these programs during the year.

MAJOR CATEGORIES OF EXPENSES

As stated at the beginning of this chapter, the fourth digit of an expense account number is used to identify the ten major categories of expenses which are standard in all programs.

.00-.09 Salaries and Wages

A fourth digit .0 in any account number in the 600-999 series always identifies a salary expense account.

The salary expense accounts used in the Mental Health Service Programs

may be broken down by the fifth digit as follows:

- 600.00 Psychiatrist
- .01 Psychologist
- .02 Registered Nurse
- .03 Social Worker
- .04 -.09 Other Categories as Needed

Salaries of personnel who are working in more than one program should be allocated among the various programs to which individuals are assigned.

.10-.19 Employee Benefits

A fourth digit .1 in any account number in the 600-999 series identifies an Employee Benefit expense account. Employee benefits are directly related to the salaries charged to a program. It is practical then to allocate the employee benefits to the programs based on the salary charges.

It is impossible, however, to present samples which may be used by every center due to the difference in the employee benefits paid by the centers and the variance in tax laws in the various states. Examples of possible expense subclassifications are:

- 600.10 Social Security (employer's share)
- .11 Group Life Insurance
- .12 Group Health Insurance
- .13 Retirement Plan Contributions
- .14 Workmen's Compensation Insurance
- .15 State Unemployment Compensation Taxes
- .16 -.19 Other Categories

.20-.29 Professional Fees

A fourth digit .2 in any account in the 600-999 series identifies

Professional Fees expense accounts. These accounts are provided as a place to record the fees paid for part or full time professional service provided by individuals who are not employees.

.30-.39 Operating Supplies

A fourth digit .3 in any account in the 600-999 series identifies an Operating Supply expense account. Operating Supplies of a program may be subclassified in up to ten different accounts.

.40-.49 Operating Expenses

A fourth digit .4 in any account in the 600-999 series identifies an Operating expense account. These accounts may vary greatly from center to center. An analysis of several existing centers suggested the following possible subclassifications:

- 600.40 Publications and Subscriptions
- .41 Printing
- .42 Dues, Fees, Licenses
- .43 Equipment Repairs
- .44 Professional Meetings
- .45 Conventions, Seminars, Workshops
- .46 -.49 Other

.50-.59 Office Expenses

A fourth digit .5 in any account number in the 600-999 series identifies an Office expense account. Almost every program will have some expense in this category. Some possible subclassifications are:

- 600.50 Telephone
- .51 Postage
- .52 Office Supplies
- .53 Office Machine Repair
- .54 -.59 Other

.60-.69 Travel and Transportation

A fourth digit .6 in any account number in the 600-999 series identifies a Travel or Transportation expense account. Some possible subclassifications are:

- 600.60 Auto Allowance
- .61 Personal Car Mileage--In State
- .62 Personal Car Mileage--Out of State
- .63 Public Transportation
- .64 Motels and Hotels
- .65 Meals
- .66 -.69 Other

.70-.79 Other Expenses

A fourth digit .7 in any account number in the 600-999 series identifies an Other Expense account. This group of accounts is provided for expense items which do not fit into any other category. Some possible subclassifications are:

- 600.70 Work Study Program
- .71 Testing
- .72 Day Camp
- .73 Special Claims
- .74 -.79 Other

.80-.89 Building Expenses

A fourth digit .8 in any account number in the 600-999 series identifies a Building expense. These accounts are used to record the expenses of providing the building area required for a program's operation. These expenses may be charged directly to each separate program, but it is suggested that they be recorded in total in programs

830-849 (Building Maintenance and Expense) and reallocated to the other programs as a part of cost finding procedures. Some possible sub-classifications in this category are:

600.80 Repairs and Maintenance

.81 Lights

.82 Heat

.83 Water

.84 Rent

.85 -.89 Other

.90-.99 Capital Outlay

A fourth digit .9 in any account number in the 600-999 series identifies a Capital Outlay account. Any budgeted purchase of equipment during a year which is directly for the benefit of one program is charged to these accounts. After the revenue and expense accounts are closed at the end of the year, the amounts which had been charged to Capital Outlay during the year should be capitalized in the proper asset accounts.

CHAPTER 6

CHART OF ACCOUNTS

In this chapter a summary of the chart of accounts for a mental health center, as discussed in Chapters 3 through 5, is presented.

BALANCE SHEET ACCOUNTS--OPERATING FUND

ASSET ACCOUNTS--Operating Fund

110 Cash	110.00-110.49	Cash in Bank
		General Checking Account
		Payroll Checking Account
		Payroll Tax Account
		Other
	110.50-110.99	Cash on Hand
		Petty Cash Funds
		Cashier's Change Fund
		Other
111 Investments	111.00-111.99	Temporary Investments
		Savings Accounts
		Time Deposits
		Other
112 Receivables	112.00-112.19	Accounts and Notes Receivable
		Patients
		Medicare
		Medicaid
		Private Insurance
		Other

	112.20-112.29	Allowance for Uncollectable Receivables
	112.30-112.39	Recoveries of Accounts Written Off
	112.40-112.49	Accounts Receivable--Staff Travel Advances Other
	112.50-112.59	Accrued Receivables Accrued Interest on Investments Other
	112.90-112.99	Due from Other Funds (for Fund Accounting only) Restricted Fund Endowment Fund Plant Fund Construction Fund
113 Inventories	113.00-113.99	Supplies Inventories (by Storeroom Location)
114 Prepaid Expenses	114.00-114.99	Expenses Paid in Advance Insurance Rent Utility Deposits Other

LIABILITY ACCOUNTS--OPERATING FUND

217 Current Liabilities	217.00-217.09	Accounts Payable
	217.10-217.19	Salaries and Wages Payable

217.20-217.29	Payroll Taxes and Deductions Payable
	Federal Income Tax Withheld
	State Income Tax Withheld
	Social Security Taxes Withheld and Accrued
	Other Payroll Withholding
217.30-217.39	Notes and Loans Payable
	Notes Payable--Vendors
	Notes Payable--Bank
	Other
217.40-217.49	Accrued Expenses Payable
	Interest
	Other
217.50-217.59	Deferred Income
	Advances on Grants
	Fees for Services Paid in Advance
217.60-217.69	Credit Balances in Patients' Accounts
217.70-217.89	Other Current Liabilities
217.90-217.99	Due to Other Funds (for Fund Accounting only)

CAPITAL ACCOUNT--OPERATING FUND

219	Operating Fund Balance	219.00-219.99	Fund Balance
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BALANCE SHEET ACCOUNTS--RESTRICTED FUND (Optional)

120	Cash	120.00-120.49	Cash in Bank
		120.50-120.99	Cash in Hand
121	Investments	121.00-121.99	Investments of Restricted Funds
122	Receivables	122.00-122.99	Restricted Fund Receivables
227	Current Liabilities	227.00-227.99	(Same as Operating Fund)
229	Fund Balance	229.00-229.99	Restricted Fund Balance

BALANCE SHEET ACCOUNTS--ENDOWMENT FUND (Optional)

130	Cash	130.00-130.49	Cash in Bank
		130.49-130.99	Cash on Hand
131	Investments	131.00-131.99	Investment of Endowment Funds
132	Receivables	132.00-132.99	Endowment Fund Receivables
237	Fund Balance	237.00-237.99	(Same as Operating Fund)
239	Fund Balance	239.00-239.99	Endowment Fund Balance

BALANCE SHEET ACCOUNTS--PLANT FUND (Optional)

140	Cash	140.00-140.49	Cash in Bank
		140.50-140.99	Cash on Hand
141	Investments	141.00-141.99	Invested Plant Funds
142	Receivables	142.00-142.99	Receivables of Plant Funds
145	Land, Buildings and Equipment	145.00-145.29	Land and Land Improvements
		145.30-145.49	Buildings
		145.50-145.99	Equipment
146	Accumulated Depreciation	146.00-146.99	
247	Current Liabilities	247.00-247.99	
248	Long-term Liabilities	248.00-248.99	Mortgages
249	Plant Fund Balance	249.00-249.99	Fund Balance

BALANCE SHEET ACCOUNTS--CONSTRUCTION FUND (Optional)

150	Cash	150.00-150.49	Cash in Bank
		150.50-150.99	Cash on Hand
151	Investments	151.00-151.99	
152	Receivables	152.00-152.99	
155	Plant Assets Under Construction	155.00-155.99	Separate Construction Projects
257	Current Liabilities	257.00-257.99	
258	Long-term Liabilities		
259	Construction Fund Capital		

REVENUE ACCOUNTS

Fee for Service Revenue

Alternative A: assumes an organizational structure exactly along lines of NIMH-identified Elements of Service.

300-319	Inpatient
320-339	Outpatient
340-349	Partial Hospitalization
350-359	Emergency
360-364	Consultation and Education
365-369	Diagnostic
370-374	Rehabilitation
375-379	Pre Care and After Care
380-384	Training
385-389	Research and Evaluation
390-399	Other

.00-.99 Available under each account above

Alternative B: assumes organizational structure exactly along the following lines:

300-	Inpatient *
320-	Outpatient
360-	Consultation and Education
390-	Children
391-	Alcohol

*(Note: Partial hospitalization and emergency activities occur in the Inpatient Unit and therefore the following subsidiary accounts would exist:

300:01	24-hour Inpatient
300:02	Emergency
300:03	Partial hospitalization)

Non-fee for Service Revenue

400-409	Federal Staffing Grants
410-419	Other Federal Funds
420-429	State Funds
430-439	County Funds
440-449	Local Funds
450-459	Donations and Fund Raising
460-499	Other Revenue
.00-.99	Available under each account above

Adjustments to Revenue

510-519	Donated Service Discounts
520-529	Contractual Adjustments
	Medicare
	Compensation Insurance
	State
	County
	Commercial Insurance
	Other
530-539	Administrative Adjustments
540-549	Allowance for Bad Debts
550-599	Other Adjustments to Revenue
.00-.99	Available under each account above

EXPENSE ACCOUNTS

Mental Health Service Programs

Alternative A: assumes organizational structure exactly along lines of NIMH-identified Elements of Service.

600-619	Inpatient Service
620-639	Outpatient Service
640-649	Partial Hospitalization
650-659	Emergency Service
660-664	Consultation and Education
665-669	Diagnostic Service
670-674	Rehabilitation
675-679	Pre Care and After Care
680-684	Training
685-689	Research and Evaluation
690-699	Other

Alternative B: assumes organizational structure exactly along the following lines:

600-	Inpatient *
620-	Outpatient
660-	Consultation and Education
690-	Children
691-	Alcohol

*(Note: Partial hospitalization and emergency activities occur in the Inpatient Unit and therefore expenses of this Unit would be allocated by such methods as may be appropriate to the following subsidiary accounts:

600:01	24-hour Inpatient
600:02	Emergency
600:03	Partial hospitalization)

General Service Programs

800-829	Dietary
830-849	Building Maintenance and Expense
850-859	Housekeeping
860-869	Laundry
870-899	Other

Administrative Programs

900-999	As needed
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CATEGORIES OF EXPENSE--UNDER EXPENSE PROGRAMS

The fourth digit in each expense category should be:

.00-.09	Salaries and Wages
.10-.19	Employee Benefits
.20-.29	Professional Fees
.30-.39	Operating Supplies
.40-.49	Operating Expenses
.50-.59	Office Expenses
.60-.69	Travel and Transportation
.70-.79	Other Expenses
.80-.89	Building Expenses
.90-.99	Capital Outlay

SUBCLASSIFICATIONS OF EXPENSE--UNDER EXPENSE CATEGORIES

The fifth digit in each expense category should be:

Salaries and Wages	.00	Psychiatrist
	.01	Psychologist
	.02	Registered Nurse
	.03	Social Worker
	.04-.09	Other as needed
Employee Benefits	.10	Social Security (Employer's Share)
	.11	Group Life Insurance
	.12	Group Health Insurance
	.13	Retirement Plan Contributions
	.14	Workmen's Compensation
	.15	State Unemployment Compensation Insurance
	.16-.19	Other as needed
Professional Fees	.20-.29	As needed
Operating Supplies	.30-.39	As needed
Operating Expenses	.40	Publications and Subscriptions
	.41	Printing
	.42	Dues, Fees, Licenses
	.43	Equipment Repairs
	.44	Professional Meetings
	.45	Conventions, Seminars, Workshops
	.46-.49	Other as needed

Office Expense	.50	Telephone
	.51	Postage
	.52	Office Supplies
	.53	Office Machine Repair
	.54-.59	Other as needed
Travel and Transportation	.60	Auto Allowance
	.61	Personal Car Mileage--In State
	.62	Personal Car Mileage--Out of State
	.63	Public Transportation
	.64	Motels and Hotels
	.65	Meals
	.66-.69	Other as needed
Other Expenses		(Subclassifications Optional)
	.70	Work Study Program
	.71	Testing
	.72	Day Camps
	.73	Special Claims
	.74-.79	Other as needed
Building Expenses	.80	Repairs and Maintenance
	.81	Lights
	.82	Heat
	.83	Water
	.84	Rent
	.85-.89	Other as needed
Capital Outlay	.90-.99	As needed

CHAPTER 7

ACCOUNTING RECORDS FOR A HAND POSTED SYSTEM

This chapter is devoted to a discussion of the different accounting records which a center using hand posted records should maintain. Although examples are given, the forms used are provided for illustrative purposes only and are by no means the only forms acceptable.

The accounting records are divided into three categories:

1. Original Documents
2. Journals
3. Ledgers

Original Documents

The procedures you establish for preparing, approving, and filing the documents supporting the financial transactions of the center will contribute greatly to the efficiency or inefficiency of your business office. In order to help identify these documents with their related journals, they are discussed in the sections which follow.

Journals

The journals are the accounting records where you originally record and summarize the individual transactions in chronological order. A separate journal is usually maintained for each different type of transaction. In this way the journals may be simpler, and the work may be distributed among the employees, thus providing greater efficiency and better control.

The financial transactions which a center will normally wish to record are:

1. Amounts due for services performed
2. Cash received
3. Purchase of services or supplies on credit
4. Cash disbursed
5. Payroll
6. Adjustments of accounts

The individual journals required to record these transactions are listed below.

Amounts Due for Services Performed

Whether a center adopts the cash or accrual basis method of accounting discussed in Chapter 1, it is still necessary for a center to have records in which to enter and control the Accounts Receivable originating from fees charged for services performed. The Accounts Receivable records can be the same, therefore, regardless of the method of accounting used. Several types of records are normally involved in preparing and recording fees for services. The normal records and documents which a center would be expected to maintain are:

1. A file showing the patients's financial ability, who is responsible for the account, and a form showing the amount of the approved donated service discount to be allowed. The method of timing and obtaining the financial information regarding a patient is optional with the center. Often, good treatment procedures and good business procedures clash on this subject. It is imperative, if a patient is to receive a donated service discount which is to be recorded at the time the service is performed, that written approval be provided in the file to authorize the recording of the lower rate.
2. A charge slip prepared when a service is rendered showing the type of service and the amount of the charge. For best control, a charge slip should be written up for every service performed and a copy forwarded to the bookkeeper. The bookkeeper can then enter the charge in the journals from the charge slip.
3. A journal in which the information from each of the charge slips is entered in chronological order. The bookkeeper files the charge slips in support of these entries. He should also have an approved donated service discount document on file to support the amount of

ACCOUNTS RECEIVABLE JOURNAL

Discount	Accounts Receivable	Trans. No.	Date	Patient's Name	320 Outpatient Service	Provide a column for each revenue producing program
2.00	6.00	732	16	John Jones	8.00	
-0-	8.00	733	17	Mary Smith	8.00	
<p><u>When entering charges for services</u></p> <p>Revenue is entered at the full established rate</p> <p>The amount the patient will pay is recorded</p> <p>The Donated Service discount is recorded</p> <p><u>For Balancing Purposes</u></p> <p>These two columns ----- equal ----- Total of all of these columns</p> <p><u>For Posting Purposes</u></p> <p>Account 510.00 ----- Account 112.00 ----- Post monthly column totals ----- Post these columns to revenue programs in the 300 series</p> <p>Note: this column is also posted to the individual patient's account</p>						

Figure 6

INDIVIDUAL ACCOUNTS RECEIVABLE CARD

JOHN JONES					
Trans. No.	Date	Description	Charges	Payments	Balance
732	16	Outpatient Service	6.00		6.00
		<u>For Balancing Purposes</u>			
		The charges less the payments equal the balance			
		The total of all individual Accounts Receivable Cards should equal the balance in General Ledger Account 112			
		<u>For Posting Purposes</u>			
		Charges are entered here from the Accounts Receivable Journal			
		Payments are entered here from the Cash Receipts Journal			

the discount to be recorded. All entries in the journal are therefore approved by someone other than the bookkeeper.

This journal includes the date, charge slip number, patient's name, amount of the charge, the amount of the donated services discount, and the allocation of the revenue to the appropriate account. This is called an Accounts Receivable Journal.

4. An individual patient account card summarizing all of his charges and payments to date, along with the current balance of the account. The patient's account should also show the dates when the patient or a third party was billed and notations regarding any correspondence related to the account.

5. A control account showing the total of the balance of all of the individual patient account cards. This account would generally be a General Ledger account, if the center is on the accrual basis.

Cash Received

The Cash Receipts Journal contains a summary of the cash received during a month. The journal shows the date, receipt number, amount of the receipt, who paid it, and whose account is to be credited for the amount paid. Individual receipt slips should be written by the cashier or receptionist for the amount of any cash or checks received. A copy of these receipts should be sent to the bookkeeper from which he can make the entries in the receipts journal. The daily deposit in the bank account should equal the total of the day's receipts as recorded in the Cash Receipts Journal.

Some government reports which must be filed ask for an analysis of the revenue of the center by "who paid" rather than what service was performed. For this reason, a place should be provided in the cash receipts journal where you can analyze your receipts for this purpose.

Purchase of Services and Supplies on Credit

The Purchase Journal is used by a center operating on the accrual method of accounting (Chapter 1). The centers using accrual methods of accounting

Figure 7

CASH RECEIPTS JOURNAL

(Right page of Journal)

Contract Discount	Cash Received		Receipt No.	Date	Received From	Accounts Rec'able	Acct.	Non-fee Revenue	Other	
	Restr.	Gen.							Acct.	Amt.
2.00	3000.00	8.00	302	6/1	<u>Sample Entries</u> Regular Pmt. on Acct. Mary Smith	8.00				
		6.00	303	6/2	<u>Rec. from Private Ins.</u> ABC Ins.--F. Smith	8.00				
					<u>Rec. from the Govt.</u> U.S. Govt. Grants		400	3000.00		
					<u>For Balancing Purposes</u>					
		These three columns ----- equal -----					These three columns -----			
520.00	120.00	110.00			<u>For Posting Purposes</u> Post Monthly -----	Acct.112.00	Account Indicated			
					Also post Accounts Receivable column to individual Patient's account					

ANALYSIS OF RECEIPTS

(Left page of Journal)

Other		U.S. Government		Medicaid		Medicare		Private Ins.		Patients	
Acct.	Amount	Acct.	Amount	Acct.	Amount	Acct.	Amount	Acct.	Amount	Acct.	Amount
										320	10.00
										350	6.00
		400	3000.00								
					<u>For Balancing Purposes</u>						
					Columns on this page equal Cash Received Columns						
					This page provides an analysis of receipts for reporting purposes only						

record their purchases of services and supplies at the time of the purchase rather than at the time of the subsequent cash payment. The Purchase Journal is a summary of the purchase invoices showing the date, name of vendor, amount of the purchase, and the accounts to be charged. A column is usually provided to record the date of the subsequent payment. If a center wishes, it may have an individual accounts payable card for each vendor where all purchases from that vendor and subsequent payments on accounts are recorded.

It saves a great deal of time, however, if the unpaid purchase invoices are maintained in a separate file until paid, and in this way they can be used to support the liability recorded on the books and at the same time replace the individual cards. When they are paid, the invoices can be filed alphabetically by individual vendor and will provide a record of purchases from that source.

This journal may be eliminated and the center may still adequately maintain accrual basis accounting records. To do this a center should charge the purchases to the expense programs when they are paid and entered in the Check Register, bypassing the Purchase Journal. This in effect puts the center's purchases on the cash basis. Each time financial statements are to be prepared, the bookkeeper must summarize the amounts in the unpaid purchase invoice file and prepare a journal entry to convert the books to the accrual basis. After statements are prepared on the accrual basis, the journal entry is reversed.

Cash Disbursements

Usually cash expenditures are restricted to amounts disbursed by check. The Cash Disbursements Journal then is a check register. A check register is a list of the checks written during a month listed in

ACCOUNTS PAYABLE JOURNAL

[illegible]

900		850		680		650		621		620	
Acct.	Amt.	Acct.	Amt.	Acct.	Amt.	Acct.	Amt.	Acct.	Amt.	Acct.	Amt.
.52	75.00			.30	125.00					.30	175.00
<p><u>When Recording Purchases on Credit</u></p> <p>Assign a column on this page for each program</p> <p>Enter each invoice in Accounts Payable column and column representing the program charged with the expense</p> <p>Use fourth and fifth digits of account number → to identify expense charged to programs</p>											

CHECK REGISTER

General Bank Balance	Deposits	Amount of Check	Date	Check Number	Payee	Accounts Payable	Other	
							Acct.	Amount
Memo Columns Only		50.00	6/5	122	Southern Phone Co.			
		300.00	6/25	123	N.W. Supply Co.	300.00		
					<u>For Balancing Purposes</u>			
					← Amount of check equals all other columns →			
					<u>For Posting Purposes</u>			
					← Post monthly total of amount of check column to Cash in Bank Post monthly total of Accounts Payable column → Post individual amounts in other columns			

900		850		680		650		621		620	
Acct.	Amount	Acct.	Amount	Acct.	Amount	Acct.	Amount	Acct.	Amount	Acct.	Amount
.50	50.00										

When Recording Payments

Assign a column on this page for each program

Enter each check in the amount of check column and one other appropriate column

Use fourth and fifth digits of account number to identify expenses charged to programs

numerical sequence by check number and chronological order. The Check Register shows the date, check number, amount of the check, payee and account distribution.

The Check Register is an important source of information when the bookkeeper is reconciling the bank account at the end of the month. The checks which are returned with the monthly bank statements should be compared with those listed in the journal as a normal procedure in reconciling of the bank account. For audit purposes, it is essential that a file be maintained containing a purchase invoice or other document supporting each check written.

Payroll

The payroll records actually consist of three different records:

1. The Payroll Journal showing the computation of the employee's gross pay, the withholding taxes, the net pay and the check number. This journal provides a summary of the monthly payroll. When a separate payroll checking account is used, this journal provides a record of the checks drawn. Payroll taxes withheld are posted from this journal.
2. The payroll distribution journal (a part of the Payroll Journal) shows to which account the gross pay is chargeable. The payroll expense is posted to the ledger from this journal.
3. The individual payroll record showing a summary of the individual employee's Payroll for the year. This record is used mostly as a summary of information needed to prepare quarterly payroll reports and the employee's W-2 form at the end of the year.

Ledgers

The standard type of General Ledger should be adopted by the center.

The balance sheet accounts should be assigned from the information in Chapter 3. Set up only those accounts needed as more accounts can easily be added.

The Revenue and Expense accounts should be set up as necessary to record the revenue and expense of the service to be offered. "Spread

(Right Page)

[illegible]

(Left Page)

900		850		680		650		621		620	
Acct.	Amount	Acct.	Amount	Acct.	Amount	Acct.	Amount	Acct.	Amount	Acct.	Amount
.00	100.00			.00	50.00	.00	100.00	.00	350.00	.00	300.00
.07	300.00										
<u>For Balancing Purposes</u>											
The total of all columns on this page will equal Gross Pay on the payroll journal.											
<u>For Posting Purposes</u>											
Each column is assigned a three digit program number											
The fourth and fifth digit are placed next to each figure to identify the subclassification.											
Each employee's gross pay is distributed to the programs in which he works.											
Column totals are posted monthly to each program.											

Figure 11

INDIVIDUAL PAYROLL RECORD

Employee Name: Frank Thomas Soc. Sec. No. 362-30-5036							
Address: 310 Fourth Street							
Payroll Information							
Gross Pay	Payroll Withholding				Amount of Check	Ck. No.	Date
	Federal Tax	F.I.C.A.	State Tax	Payroll Advance			
900.00	100.00	48.00	52.00	100.00	600.00	375	6/1
<p><u>For Balancing Purposes</u></p> <p>Gross pay equals the total of all other columns</p>							
<p><u>For Posting Purposes</u></p> <p>This record is not posted -- it is merely a summary of one employee's payroll record</p> <p>All figures on this record are copied directly from the payroll record</p> <p>This record provides quarterly payroll totals needed to prepare payroll reports</p> <p>This record is totaled at the end of the year to provide totals for preparing employees' W-2 forms</p>							

sheet" accounts should be utilized where possible so all of the expense of operating one program can be recorded on the same page.

It may prove to be beneficial to enter the budgeted amount of each expense at the head of each expense column in the ledger so the expenses to date can be compared with the amount budgeted by reviewing the expense section of the ledger.

The ledger should be posted and balanced monthly. If the ledger is properly set up, financial statements can be easily prepared directly from its pages without any additional work.

Figure 12

SAMPLE GENERAL LEDGER PAGES
for use in Recording Balance Sheet Accounts

Inventory - Supplies						113.00
						400.00
Accounts Receivable - Patients						112.00
						3200.00
Cash on Hand - Change Fund						110.60
						200.00
Cash in Bank - Checking						110.00
Date	Description	Ref.	Charges	Credits	Balance	
6/30		CR	3,500.00		3,500.00	
6/30		CD		2,000.00	1,500.00	

SAMPLE GENERAL LEDGER PAGES
for use in Recording Program Expenses

Outpatient Service Program Salaries					620.00
Date	Description	Ref.	Charges	Credits	Balance
6/1	(Sample Posting from Payroll Journal)	P.R.	300.00		300.00
	Set up one ledger page for each expense category in a program				

.08		.07	.06	.05	.04	.03	.02	.01	.00
						Social Worker	Regis- tered Nurse	Psychol- ogist	Psychia- trist
		Assign one column to record each subclassification of the expense category							

CHAPTER 8

ACCOUNTING FOR A SMALL MENTAL HEALTH CENTER

Many of the existing mental health centers and many of those now being established can be classified as small centers. For that reason, this entire chapter is devoted to the problems surrounding their accounting systems.

In this chapter, we will discuss the actual establishment of a small center and how its accounting system is developed.

DEVELOPING THE CHART OF ACCOUNTS

The Organization of the Center

It is assumed that the center director has drawn up an organizational chart for the center showing what services it would offer.

These might be:

1. Inpatient care, night hospital, and emergency services are to be contracted out to a local hospital.
2. Partial hospitalization including day care, evening care and other outpatient services and consultation and education are services to be offered at the center as soon as it is opened. Several other services are to be offered as staffing permits. These are also included on the organizational chart.
3. Further plans call for a second affiliate agency to provide rehabilitation services.

Assigning Revenue and Expense Accounts for Contracted Services

When services are contracted for with an agency outside of the center, they are usually handled in one of two ways.

1. The center pays the outside agency a flat fee for the service. The patient is then billed by the center for the services he receives.
2. The center contracts with the outside agency for the service but the outside agency bills the patient directly for the services he receives.

Under the first method, the expense and revenue of the contracted services would be automatically recorded on the center's records when the outside agency was paid for the service and the patient was billed.

Under the second method, the expense and revenue of the contracted services will not appear on the center's records unless special entries are made to record these transactions.

In our sample center, inpatient and emergency services are to be contracted out. The following accounts are assigned to record the revenue and expense of these services:

Inpatient Service Expense--Program 600.71

Inpatient Service Revenue--Program 300.00

Emergency Service Expense--Program 650.71

Emergency Service Revenue--Program 350.00

As you can see, the expense programs in the 600 series are directly related to the corresponding revenue accounts in the 300 series.

In our sample problem, the Inpatient Services are contracted out under method one above. The center is billed a flat monthly fee for ten inpatient days at \$30.00 per day. The entry to record payment of the contracted Inpatient Service would be recorded in the check register as follows:

600	Inpatient Service Expense--Contracted	\$300.00	
110.00	Cash in Bank		\$300.00

The charges made to the patient would be recorded in the Accounts Receivable Journal.

In our sample problem, the Emergency Services are contracted under method two. The hospital notifies the center they had provided five emergency treatments for which they had billed the patients \$10.00 per treatment. If the center wishes to have all contracted services recorded on its books, it will be necessary to prepare a journal entry to record these services. It would appear as follows:

650.71	Emergency Service Expense--Contracted	\$50.00	
350.00	Emergency Service Revenue		\$50.00

This records contract services paid directly by the patient.

Assigning Revenue and Expense Programs for Services Provided

As you remember, a previous chapter stated that a center must decide what services it will provide and how it wishes to account for them.

The services provided at this center when it opened were to include:

1. Partial Hospitalization
 - a. Day Care
 - b. Evening Care
 - c. Other
2. Outpatient Services
3. Consultation and Education

The managers of the center must now decide how they wish to record their expenses. Some of the alternatives the manager might consider would be:

1. Assign one program number to record all of the expenses of operating the center.

This method is unacceptable as inadequate records would result.

2. Assign one program number to record each of the major services outlined.

Partial Hospitalization	640
Outpatient Services	620
Consultation and Education	660

3. Assign one program number for each service.

Partial Hospitalization	
Day Care	640
Evening Care	641
Other	642
Outpatient Services	620
Consultation and Education	660

4. With any of the combinations in 1-3, they might also assign one or all of the following programs:

Building Maintenance and Expense: 830
to record the expenses of renting
the center building and the cost
of maintenance expense

Housekeeping: to record janitorial 850
expenses

Administrative Expense: to record 901
all general office and adminis-
trative expenses

As you see, the number of programs selected for the same center can vary from one to perhaps a dozen. The programs selected should be based on the needs of the center. If several programs are set up, the budget should be prepared on that basis, and the revenue and expenses should be allocated to the programs as they occur.

Assign Revenue and Expense Programs for the Sample Center

Our sample center will elect to use the expense programs in Alternate Number 2 above. In order that they will not need to allocate the rent,

utilities, janitorial expense, office and administrative expenses to the service programs during the year, they also elect to use the three programs in Alternate Number 4. The expenses recorded in these three programs will ultimately be allocated to the service programs in the process of cost-finding. Their use during the year, however, eliminates the need to allocate the individual expenditures as they are made.

The expense programs of the center would be as follows:

Contracted Services

Inpatient Services	600
Emergency Services	650

Services at the Center

Partial Hospitalization	640
Outpatient Services	620
Consultation and Education	660

Supportive Service Programs

Building Maintenance and Expense	830
Housekeeping	850
Administrative Expense	901

The accounts used to record the revenue from the services provided by the center are automatically assigned when the 600 series programs are selected. Under normal circumstances, a 600 series program will call for a corresponding revenue program in the 300 series. Revenue may not be received from every service offered.

The revenue programs of the center would be as follows:

Inpatient Service	300
Emergency Service	350

Partial Hospitalization	340
Outpatient Service	320
Consultation and Education	360

The center expects to receive federal grants, state grants, and donations from local organizations. As they are needed, other revenue programs may be added but initially the following non-service revenue programs would be established.

Federal Grants	401
State Funds	420
Donations	450

The programs needed for recording the discounts from revenue would be set up in the 500 series.

Assigning Expense Accounts within the Programs

As you remember from Chapter 6, the ten major expense categories identified by the fourth digit in the account number are standard in all programs. The major expense categories, therefore, do not need to be selected but are automatically used as follows in all expense programs:

.0 Salaries and Wages	.5 Office Expense
.1 Employee Benefits	.6 Travel and Transportation
.2 Professional Fees	.7 Other Expenses
.3 Operating Supplies	.8 Building Expense
.4 Operating Expenses	.9 Capital Outlay

Assigning Subclassifications of Expenses

Ten major expense categories will seldom provide the detail of expense desired. The fifth digit will provide the center up to ten subclassifications under each major category. These subclassifications must be determined by the individual center. The following material

may aid the center in determining which subclassifications to use. If possible, the subclassifications should be the same in all programs; if not, at least those used in the service programs should be uniform.

In order to determine the subclassifications, review the expense programs, one at a time, and list the breakdowns desired under each of the ten expense categories. After the list is complete for all programs, assign the fifth digit numbers. If the entire list does not include more than ten subclassifications in each category, assign the numbers 0-9 to them and make them standard in all programs, even if they are used in only a few of the programs. Whenever possible, the subclassifications shown on the chart of accounts in Chapter 7 should be used.

To illustrate, we can follow these procedures for one of the expense categories. Let us first list the possible types of salary and wage subclassifications needed under each program of our small sample center.

- 600 Inpatient Services--Contracted
none needed
- 655 Emergency Services--Contracted
none needed
- 640 Partial Hospitalization
Psychiatrist
Registered Nurse
- 620 Outpatient Service
Psychiatrist
Psychologist
Social Worker
Secretary
- 830 Building Maintenance and Expense
none needed--no maintenance employees
- 850 Housekeeping
Custodian
- 901 Administrative Expense
Receptionist
Bookkeeper

The salary subclassifications would then be summarized in one list and the fifth digit assigned as follows:

Psychiatrist	.01
Psychologist	.02
Social Worker	.03
Registered Nurse	.04
Receptionist	.05
Bookkeeper	.06
Secretary	.07
Custodian	.08

The first four subclassifications were assigned as shown in Chapter 7. The other subclassifications were assigned as needed.

These subclassifications will now be used as standard subclassifications in all programs. It should be noted that these subclassifications have no relationship to the number of employees. They are determined by the subclassifications the center needs for management and reporting purposes. An employee's salary may be charged to one or more subclassifications under any number of programs. This, of course, requires the maintenance of records which will substantiate the allocation of the employee's salary.

The same procedures would be followed for each of the other nine expense categories until standard subclassifications are assigned in each category.

Determining the Balance Sheet Accounts

It is easy for the center's manager to determine which balance sheet accounts to use. All he needs to do is list the various types of assets and liabilities the center must account for and match them with accounts discussed in Chapter 3. The following is such a list as might be prepared by a small center.

<u>List Prepared</u>	<u>Accounts Assigned</u>	
Cash--Change fund	Change Fund	110.60
--To make small purchases	Petty Cash	110.50
--In bank, general checking	Cash in Bank	110.00
Amounts Receivable from Services	Accounts Receivable	112.00
Equipment	Equipment	145.50
Land	Land	145.00
Building (if owned by center)	Building	145.30
Amounts due to creditors	Accounts Payable	217.00
Mortgage on Building	Mortgage	248.00
Payroll Taxes Payable		
State Withholding	State W.H. Payable	217.20
Federal Withholding	Fed. W.H. Payable	217.21
F.I.C.A.	F.I.C.A. Payable	217.22

These balance sheet accounts might be all that are needed by a small center. Since it is easy to add new ones at any time, it does not matter if the original list is complete.

It should be noted that the accounts listed above would normally require the use of two fund balance accounts. These are the two that will be common in most centers. The equipment, land, building, and mortgage on the building are all Plant Fund Accounts (249.00). The other accounts belong to the Operating Fund (219.00).

If the center does not wish to use fund accounting, it may, however, use the Plant Fund Accounts as part of the Operating Fund and eliminate the use of the Plant Fund Account (249.00). The center may also receive restricted cash such as federal grants which normally would be recorded in separate restricted fund accounts. This also may be recorded in the General Fund by use of a separate bank account such as 110.30, Cash in Bank: Restricted.

SELECTING THE ACCOUNTING RECORDS AND PROCEDURES

To determine which procedures to use and how to record the center's transactions, each type of transaction as described in Chapter 7 should be individually discussed. The methods of recording that type of transaction can then be decided upon.

There are several alternate methods of accounting, one of which should be decided upon before selecting the actual accounting records. Is the center going to use the cash or accrual basis method of accounting? Both methods are discussed in Chapter 1, and the accrual method of accounting was recommended. This method will be used in this chapter.

In this section, we will review the alternate records and procedures which might be chosen by the small center. We will discuss the types of transactions in the same sequence as used in Chapter 7.

Amounts Due for Services Performed

In the majority of centers, most of the "receivables" procedures outlined in Chapter 7 should be followed. There are two ways in which a small center may reduce the accounting work in this area.

1. Although it is recommended that all fees for services be recorded at fixed rates and reductions be recorded as donated service discounts, this procedure does require additional work. Recording fees at the net amount charged may reduce work.
2. In a small center, the original charge slip might be made up on a four or five part form and used as follows:
 - a. One copy to the patient at the time of the service.
 - b. One copy of the form sorted numerically each day, and the day's charges summarized. This would reduce the day's entries in the journal to one per day. The copies of the forms would be retained as back-up material.
 - c. Three copies filed in the patient's individual accounts receivable file, thus eliminating an individual patient accounts receivable card. One of these copies would

be retained permanently as a record of the patient's charges and services. When the charge is paid, this copy is appropriately marked and transferred to the patient's paid bill file. The other two copies are each used in place of a monthly statement to the patient. This would eliminate preparing a monthly statement to be sent to the patient.

Cash Received

The journal used to record cash receipts may vary from the form used in this manual. It is recommended that the procedure outlined in previous chapters be followed.

Purchases of Services and Supplies on Credit

The use of an Accounts Payable Journal and individual vendor's cards as described in prior chapters is not recommended for the small center. A considerable amount of journalizing, balancing, and posting can be eliminated by the institution with a good accounts payable filing system.

The vendor's invoices might be handled by maintaining a file of unpaid invoices. This replaces the Accounts Payable (Purchase) Journal and the individual vendor's card.

1. When an invoice is received and it has been verified that the merchandise has been received, code the invoice with the accounts to be charged and file it in the unpaid invoices file.
2. When the invoice is paid, indicate on it the date and check number and transfer the invoice to a paid invoice file. The check will be charged to the accounts coded on the invoice.
3. When financial statements are prepared at the end of a month, or year, wait until all invoices have been received, coded, and filed before summarizing by accounts the amounts on the unpaid invoices. Prepare a journal entry to record the accounts payable in the ledger. This is a procedure to put the books on the accrual basis method. "Reverse" the journal entry during the next month. In this way, all invoices can be recorded as shown in Step 2 above.

Cash Disbursements

Cash disbursements procedures outlined in this manual should be followed. If the alternate accounts payable procedure outlined in the

preceding section is followed, the accounts payable column would be eliminated on the Check Register since invoices are not recorded until paid and then are charged directly to the proper expense accounts.

Payroll

The payroll procedures and records previously outlined in this manual should be followed. There are a few variations which might be considered by the small center.

The Payroll Journal with its payroll distribution system may be eliminated if the appropriate number of columns needed to record the gross pay and each type of withholding can be provided in the check register. In this case, it is important that the payroll checks be entered at the end of each month so that current month's payroll will be charged to expense if financial statements are to be prepared.

OTHER ACCOUNTING AND MANAGEMENT PROBLEMS

Increasing the Capability of the Accounting System

Since the basic numbering system presented in this manual is patterned after the standard numbering system for hospitals, it will normally provide all of the accounts necessary to meet the needs of any size center. If, however, a center wishes, it may add a sixth digit to the basic account number. This sixth digit would be used primarily in the further subclassification of expenses.

In this manual, the major expense category is identified by the fourth digit and the subclassification by the fifth digit. This provides for ten major expense categories (0-9) and ten subclassifications (0-9).

If the sixth digit is added, it is suggested that in order to maintain conformity with the standard numbering system presented, the new digit should be used in the following way: The fourth digit (0-9) would still identify the ten major expense categories. The fifth and sixth digits would then be used to identify up to 100 subclassifications under each major category (00-99). If the sixth digit is used, it is recommended that the subclassifications assigned be standardized in all programs.

The Peg-Board Accounting Records

To increase efficiency, reduce work, and make it easier to balance the center's related records, it is recommended that the center using hand posted records consider the use of a peg-board type of

accounting system. A peg-board is a metal board with pegs which hold the records in place while the entries are being written on them.

A peg-board system provides for the designing of your records in such a way that those which require the entry of the same information can be placed on the board at the same time, one over the other, and by using carbon paper the information can be recorded on all of the records at one time.

As an example, return to Chapter 7 where the payroll records required the identical payroll information to be entered in a Payroll Journal and also on individual employee records. The Payroll Journal and the employee's individual record may be designed for use on a peg-board system. If properly designed, the payroll check can be written and the payroll information entered in the Payroll Journal and on the individual employer's payroll record at the same time. Since the entries are merely carbon copies, they are certain to be exactly the same. In these ways, time will be saved. Peg-boards are also useful in recording accounts receivable and some of the other records. There are many types of peg-boards available and usually a local dealer will assist in designing the journals you desire. These should be reviewed by your accountant as normally it is not desirable to put all of the records of a center on a peg-board system.

The peg-board system will initially cost more than a standard hand written system, but can result in great savings in time and effort and in greater accuracy.

Data Processing and Your Accounting Records

It should be easy to convert your hand posted accounting system, as outlined in this manual, to a data processing accounting system with

little change in the basic coding. As this numbering system is similar to that used by hospitals, many of which are now using data processing, it should be readily adaptable to such processing. Certain codes normally are required to be used in addition to the standard account codes in order for the computer to process the transactions.

For example, a transaction code is normally used to identify each type of transaction. A transaction code "1" could perhaps be assigned to identify cash receipts transactions.

The computer might then be programmed to:

1. Debit the amount to cash in bank
2. Credit the revenue or other account number assigned to the transaction
3. Store the input so it could print the item on a monthly list (Cash Receipts Journal)
4. Print the amount on a daily list which can be reconciled to the day's deposits.

Although additional codes are involved in coding transactions for data processing and the format of the financial transactions varies, it should be possible for the center to adhere to this standard accounting system.

BUDGETING, ACCOUNTING, AND COST FINDING

Budgeting

The financial transactions of a center are usually planned in advance by management. These estimated future transactions precede the actual transactions recorded in the accounting system.

It is advisable to measure in accounting terms the financial effect of these plans. The center's accountant should summarize these plans

and put them down in writing in a form which would ideally be similar to the actual transactions which will occur in the coming period. This process of dealing with estimated future transactions is called budgeting.

The budget for a center should reflect the estimated revenue and expenditures for the forthcoming period. In order for the budget to be beneficial to the center, some basic requirements should be met.

1. The budget should be carefully prepared by program and should reflect practical estimates.
2. The budget should be prepared in such a way that the break-down will correspond with the accounts actually used in the accounting system.
3. The one assigned to approve a program's expenditures should be responsible for seeing that the program stays within the budget.
4. The budget must be reviewed periodically and evaluated so budget expenditures can be adjusted if revenues are not maintained in accordance with estimates.

Accounting

In establishing the expense programs to be used by a center, it should be pointed out that for budgeting, accounting, and cost-finding purposes, it is normally easier if some of the General Service Program (800 series) and Administrative Programs (900 series) are used. It is easier, for example, to budget all of the housing expense of the center to the 830 account (Building Maintenance and Expense) and charge the actual expenditures to that program than it is to budget this expense to the various service programs and allocate each expenditure as it occurs.

For both budgeting and accounting purposes, it is, therefore, more feasible to use the 800 and 900 series programs to isolate expenses beneficial to all service programs and then to allocate them at the

end of the year as part of your cost-finding procedures.

Cost-Finding

In order to evaluate properly the results of a center's operations for a year in terms of what it costs to achieve a certain result or to provide a service, certain statistical records are required. The accounting records outlined in this manual are designed to record the revenue and expense of the center and provide adequate controls over the funds it is responsible for. By charging the revenue and expenditures to programs during the year, we have gathered certain financial information in one place. Statistics must be gathered, however, which show what services were provided by each program before the actual costs of providing individual services can be computed. Therefore, for cost-finding purposes (if for no other) the patient statistical system and the accounting system must be compatible.

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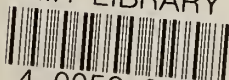
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